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FINAL TRANSCRIPT

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PRESENTATION

Operator

Good day, ladies and gentlemen, and thank you for standing by. Welcome to Cenovus Energy's Third Quarter Results. As a reminder, today's call is being recorded. At this time, all participants are in a listen-only mode. Following the presentation, we will conduct a question-and-answer session. You can join the queue at any time by pressing star one. 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 express consent of Cenovus Energy. I would now like to turn the conference call over to Mr. Jason Abbate, Senior Vice President, Investor Relations. Please go ahead, Mr. Abbate.

Jason Abbate — Senior Vice President, Investor Relations, Cenovus Energy Inc.

Thank you, operator, and welcome, everyone, to Cenovus's 2023 third quarter results conference call. Please refer to the advisories located at the end of today's news release. These describe the forward-looking information, non-GAAP measures, and oil and gas terms referred to today. They also outline the risk factors and assumptions relevant to this discussion. Additional information is available in Cenovus's 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. We have also posted our results on our website at cenovus.com.

Jon McKenzie, our President and Chief Executive Officer, will provide brief comments and then we'll take your questions. We ask that you hold off on any detailed modelling questions. You can follow up with those directly with our Investor Relations team after the call. And please also keep to one question with a maximum of one follow up. You are welcome to rejoin the queue for any other follow-up questions you may have.

Jon, please go ahead.

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

Great. Thank you, Jason, and good morning, everybody.

I'll start this call with our top priority, which is always health and safety. At our offshore China operations, Liwan 3-1 recently achieved a significant milestone of producing one trillion standard cubic feet of natural gas sales with no serious incidents or safety events. This is truly an impressive record of safety. And the comprehensive pre-start up safety reviews conducted at our Toledo and Superior refineries resulted in strong process safety performance throughout the restart of these assets. These achievements underscore the importance of our values and safety commitments and the work that we do every day and I'm proud of our staff for the hard work and effort that they put into achieving these milestones.

We forecasted earlier this year that we would see strength of our operations and the value of our integrated strategy in the back half of the year. Our third quarter results are a demonstration of that with both upstream and downstream businesses delivering strong operational and financial results. Our upstream business saw an increase in production to nearly 800,000 BOE per day in the third quarter and, combined with higher commodity prices, we generated an operating margin of about $3.4 billion.

In the conventional business, production volumes were impacted by wildfire activity in Q2 but returned to normal rates in the third quarter. Our production increased to over 127,000 barrels per day versus the second quarter number of 105,000 BOE per day. So I'd again like to thank our staff and contractors that played an integral role in our ability to resume or safely resume our operations following the unprecedented wildfire events.

Our oil sands assets continue to perform exceptionally well following the execution of redevelopment programs and the start up of new well pads, both of which support short and long-term production growth. Production increased over 600,000 barrels per day versus the second quarter number of 572,000 barrels per day. At our Sunrise oil sands production, third quarter production rose 17% to about 55,000 barrels per day. The asset continues to perform well as we apply Cenovus operating processes, including the implementation of redevelopment wells, adjusting well designs and operating parameters. Now I expect oil sands assets to continue their positive performance through the remainder of 2023 and beyond. We'll remain focused on operational reliability and the safe and efficient execution of our growth capital and product optimization projects with the Narrows Lake tieback, Foster Creek steam addition and new well pads at Sunrise being a few key examples that support short- to medium-term growth plans.

In our offshore segment, our Asia Pacific assets performed extremely well. The Company achieved first gas from the MAC field in Indonesia in September. In the Atlantic, the Terra Nova FPSO has now returned to offshore Newfoundland and is expected to produce first oil in the fourth quarter while our

West White Rose project is also progressing as planned with approximately 75% of the work completed to date. We'll continue to advance the work for the regulatory dry dock of the SeaRose FPSO that will commence in January in preparation for the start up of the West White Rose project.

Now turning to the downstream business, the third quarter results generated much healthier operating margins from the refining and upgrading assets in our portfolio. Overall, our downstream business contributed over $900 million in operating margin with favorable crack spreads and FIFO tailwinds.

Following a challenging first half of the year in the US manufacturing segment, we delivered on our expectations of getting the last of the refining assets online and running reliably. Following the purchase and start up of Toledo and the commissioning and start up of Superior, crude utilization increased significantly from 70% in the prior quarter to 88% in this quarter. This is largely due to Toledo having performed well at 90% utilization through the quarter. You also would have seen a sizable reduction in the unit operating costs in our US manufacturing segment, with the majority of our refining assets running at or near full rates in the third quarter, and a reduction in the overall operating costs associated with the start up of Toledo and Superior. At the Superior refinery, we achieved the safe start up of the fluid cat cracker in early October. While the start up of this unit was delayed, the business unit completed this complex work without compromising the safety of our staff and assets. And you will know that the Borger refinery is now undergoing planned maintenance, which will impact Q4 throughput.

We're really pleased with the Canadian manufacturing segment. Crude utilization was 98% in the quarter with the Lloydminster upgrader and refinery demonstrating strong and stable performance and the ability to capture margins as heavy oil differentials widen. With the seasonally weaker crack spreads and the recent weakness in gasoline cracks, we're focused on optimizing our assets to maximize the economic result. We will continue to build on solid operational execution and reliability we've demonstrated this quarter going through year end.

I'd now like to highlight our corporate and financial performance. In the third quarter, Cenovus delivered approximately $3.4 billion of adjusted funds flow with both upstream and downstream businesses demonstrating strong performance and contributions to operating margin. Through our base dividend share buybacks and partial payment of common share warrant obligation, we distribute over $1.2 billion directly to shareholders. In addition, the Company's net debt was approximately $6 billion at the end of the third quarter. Long-term debt decreased to $7.2 billion after we purchased $1 billion of notes that were due between 2029 and 2047. We did see an increase in our working capital as compared to Q2, although this was driven by largely higher commodity prices. Looking forward, we remain focused on achieving our $4 billion net debt target and delivering 100% of excess free funds flow to shareholders at that time.

So, in closing, we believe we've delivered a stronger third quarter, in line with our expectations. We're focused on furthering the operational successes that we've achieved in the quarter and continuing to progress both short- and long-term goals of the Company. And with that, we're happy to take your questions.

Q & A

Operator

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

Your first question is from Dennis Fong from CIBC. Please ask your question.

Dennis Fong — Analyst, CIBC

Hi. Good morning and thank you for taking my questions. My first one is just around, I guess, pay down of the warrant obligation. So in the quarter, as you highlighted, you did about $600 million. When you think about what's remaining for that obligation, as well as your cash returns back going into the fourth quarter, how should we be thinking about share buyback cadence as well as any other considerations you're taking into going into the end of the year around the buyback? Thanks.

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

I'll turn that question over to Kam to answer, but you remember, we did those warrant buybacks at around $22 per share and we did take the opportunity in the quarter to pay down about $600 million of that. So I think there's about $111 million left that we need to pay. I think the deadline is early January. But maybe, Kam, you can talk a little bit about our thinking around share buybacks.

Kam Sandhar — Executive Vice-President & Chief Financial Officer, Cenovus Energy Inc.

Thanks, Jon. Hey, Dennis. So I think a couple of things I would highlight. First off, Jon alluded to this, but the price at which we had transacted on those warrants was a lot lower than where our share price is today, so we made a very conscious decision to proactively pay that warrant obligation down in Q3 relative to continuing to buy back stock. So I would say the principles around that aren't going to change. We'll continue to look at probably paying down that warrant liability in the fourth quarter. I think, given where even our share price sits today, I think it's not an unreasonable assumption to assume that we would pay the rest of that obligation in Q4.

And then when you think about the rest of the buyback program and potential for variables, the approach for us has not changed. We're going to continue to test intrinsic value of the share price at a flat $60 WTI price. If we continue to see opportunity in buying back stock, you should see us active in the market. And the goal is always to fulfill that 50% of excess free funds flow in any particular quarter either through buybacks or through variable dividends. But we've been continuing to buy back stock through Q3, you'll continue to see us active in Q4, and I think part of that will also include payment of that warrant obligation.

Dennis Fong — Analyst, CIBC

Great. I appreciate that colour, Kam and Jon. My second question here, I guess follow up, is shifting gears a little bit more to the operations side. Appreciate the colour that you provided, Jon, on the flexibility of your downstream operations. I just wanted to ask a quick question about Superior and the FCC unit. As I recall, that FCC unit is generally used to help finish gasoline and that through the third quarter you were building some intermediate product. How should we be thinking about the opportunity set or how you're going to manage that inventory, again, just given where gasoline cracks happen to sit at and your ability to maintain flexibility within that particular refinery? Thanks.

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

I'll let Keith give you a fuller picture on that, but you're exactly right, the FCC unit is a big gasoline-producing asset. And one of the things we always look at is the forward markets and our ability to move the sales of that gasoline into a higher netback periods, and so we're always watching sort of the winter/summer spreads and looking at that with an eye on containment as well. But maybe, Keith, you've got some additional thoughts on how we're managing gasoline at Superior in particular.

Keith Chiasson — Executive Vice-President & Chief Operating Officer, Cenovus Energy Inc.

Thanks, Dennis. Obviously, Superior being the first stop on kind of the Mainline system and the current rate of differentials, it does provide a significant crude advantage and something different than we had on line at the end of 2022, so pretty excited to have this asset up and running and fully operational. So we will continue to look at the economics and obviously we will make economic decisions on when we run that inventory off, but in today's environment we're still seeing relatively robust returns to do that.

I think the other thing I would offer up, Dennis, is we have, ah, now that we have the integrated network up and running and the other assets up and running, we've been moving some of that intermediate inventory to other assets to run off those products and make finished product. And we've been doing that for a period of time. So it's not just that we have to run it through the existing asset.

Dennis Fong — Analyst, CIBC

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

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

Great. Thanks, Dennis.

Operator

Thank you. Your next question is from Neil Mehta from Goldman Sachs. Please as your questions.

Neil Mehta — Analyst, Goldman Sachs

Good morning, team. Appreciate all the colour this morning. Just some early thoughts on 2024 capital would be great. I think you guys do have some interesting growth projects in flight and so can you help us think about framing this out, recognizing we're going to get a little more clarity this year over the next couple of months?

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

Thanks, Neil, and you're exactly right, we are going to come out with a more formal budget release in December. But what we've been really trying to communicate to the market is that our capital spending over the next number of years is going to be between the $4.5 billion to $5 billion range, so very similar to what you saw in 2023. In 2023 we made a conscious decision to put some capital to work on some growth projects that we have in the portfolio. These are very high return, very efficient projects that we started funding in 2023 and we'll continue to fund through next year and really through the planning period that we’re looking at. But don’t think that the capital budget is going to look much different than what you’ve seen this year in the $4.5 billion to $5 billion range.

Neil Mehta — Analyst, Goldman Sachs

That’s helpful. And then to build off that, can you talk about what some of those key growth projects are in 2024? And maybe that higher spend that maybe some were expecting a couple of years ago, some of it’s because of differentiated projects, not just because of higher sustaining capital levels, so providing a little more colour on what those are could be helpful.

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

Sure. And, again, we’ve been, hopefully, clear on differentiating what we consider to be sustaining capital, and that’s the capital to keep production flat and our fixed assets in a safe and stable condition from the growth capital. But again, these projects, you know, we started funding them in 2023 and we’ll continue through 2024, 2025, and 2026. But maybe, Keith, you might want to talk about the big four projects that we’ve got going on in particular.

Keith Chiasson — Executive Vice-President & Chief Operating Officer, Cenovus Energy Inc.

Sure, Jon. And thanks for the question, Neil. I just want to anchor first on the fact that we look at investments in these growth projects at the bottom of the cycle. And they all, obviously, chin the bar and are relatively low capital to get the growth that we’re going to be talking about. And as Jon indicated, we’ve kind of kicked these off through the 2023 period and they’ll continue through 2024. But we’re pretty excited about the Foster Creek, the Christina Lake, Sunrise, and West White Rose projects, all contributing about north of 100,000 barrels a day of growth.

So at Foster Creek, we're doing a steam expansion. We'll be able to kind of wrap that up in the 2025 time period and start ramping up steam and production. That will add about 30,000 barrels a day of production in the 2026/2027 time period. Christina Lake, we've been talking about this one for a little bit, but really it's building a pipeline up into the Narrows resource and bringing that back and processing it at Christina Lake, which is a much different concept than we had probably five, six years ago and a way to access this resource at a much lower capital cost. So by doing that we'll drop our SORs and we will see kind of an incremental 20,000 to 30,000 barrels a day of production at Christina Lake. Again, that kind of starts ramping up in the 2025 time period and full production kind of in the 2026 time period.

At Sunrise, we've been actively working on applying the Cenovus technology since acquiring the asset. We've spent a bit of time with infills and redrills and redevelopment wells this year and so you're seeing production kind of north of that 50,000 barrels a day. But now we're adding pads. So the last time a pad was added at Sunrise was in the 2017 timeframe. So we have a whole pad development program. The first one will be steaming at the back end of 2023 here and through 2024. But we're also adding additional pads. So through kind of that 2025/2026 timeframe you can see us fully getting the full utilization of all the steam capacity at the asset and that should drive our production up into that mid-60,000 type range. So we're kind of going to see a 15,000 to 20,000 barrel a day growth at Sunrise.

And then on our East Coast project, the West White Rose project, this is where a bit more capital will be going in the 2024 and 2025 time periods as we finish that project. We're north of 70% complete.

We hit some milestones on our gravity-based structure in the quarter and we'll be spending 2024 and 2025 to finish construction, tow it offshore, mate up the top sides and the gravity-based structure and commence drilling in 2025. So we'll start seeing production growing in 2026 and peaking in that 2028 timeframe at about an incremental 45,000 barrels a day.

So really excited about the growth projects, the volume it adds at relatively modest or low capital and, to Jon's point, doing all this in that $4.5 billion to $5 billion capital range over the next couple of years.

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

So, Neil, what you should be thinking about, just for your model, Neil, you should be thinking kind of in the $2.9 billion to $3 billion range for sustaining capital and then the residual being growth.

Neil Mehta — Analyst, Goldman Sachs

Okay. That's really helpful. Thanks, Jon.

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

Okay. Thanks, Neil.

Operator

Thank you. Your next question is from Menno Hulshof from TD Securities. Please ask your question.

Menno Hulshof — Analyst, TD Securities

Thanks and good morning. I've got a couple of follow-up questions from some of the prior questions, so maybe I'll start with a high-level one on the operational outlook for downstream. Scale of one to ten, where do you think you are today on a downstream performance from a pure operational perspective relative to where you'd like to get to? And then where else do you see room for improvement within US refining?

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

I'm going to let Keith answer the specifics on this, but what I would tell you, Menno, is refining is a core part of our business. We have built a heavy oil value chain that we think has significant value to the shareholders and we think it's actually quite unique in its construct. But our goal is to be as good at running the downstream as we are our thermal assets. And that's not necessarily going to happen overnight, but that's the trajectory that we're on and that's where we want to take this piece of business. Refining and upgrading is absolutely core to this business, so what you'll see from us over the coming years is a continued focus on sweating these assets, grinding out value, not just on the operating side in terms of reliability throughput and the like but also on the commercial side of this business, and making sure that we're making all the right decisions and capturing as much margin as possible.

Maybe I'll turn it over to Keith. I don't know that he's going to give you an answer on one to ten, but I think he'll give you some indication on where we think we are.

Keith Chiasson — Executive Vice-President & Chief Operating Officer, Cenovus Energy Inc.

Thanks, Menno, and I think I just got some direction. Basically we, you know, you've got to think about kind of what the downstream organization has been through. Superior was down for about five years and we've now safely restarted that refinery and pretty excited about it. Toledo kind of came through an event and then a winter freeze event as well and the team there has successfully restarted and has run that refinery reliably since kind of the June timeframe. So pretty excited about where we are.

I think we do continue to have opportunity though and part of that opportunity is around the integrated nature of that value chain. Now that we're up and running and running reliably, we are actively looking at integration opportunities between Lima and Toledo and ways to capture additional margin. Obviously, having around 120,000 barrels a day of heavy conversion capacity in today's differential market provides a lot of opportunity and flexibility to capture additional crude advantage at those two refineries. You would have seen our unit OpEx drop substantially in the US downstream in the quarter. We're going to continue to work to grind that even lower over the next several quarters and continue to work on our reliability and continue to improve that. So we're not stopping, but we think we have additional opportunity to drive down unit OpEx, improve reliability, and really extract additional margin. But the assets are up and running and performing well today.

Menno Hulshof — Analyst, TD Securities

Terrific. Thanks. That was a great rundown. Maybe I'll just circle back on West White Rose. It's 75% complete. You've got $440 million invested on a net basis since restart. How is that project generally tracking relative to your internal targets? And given that it's offshore, where do you see the most risk between now and 2026? Is it in the timeline or the budget?

Keith Chiasson — Executive Vice-President & Chief Operating Officer, Cenovus Energy Inc.

Yeah, Menno, we're pretty happy with where we're at. When we picked up this project, the gravity-based structure had the base of the structure poured and over the past six to eight months we predominantly finished that gravity-based structure. We have all the necessary contracts in place for the remainder of the project. The top sides are essentially mechanically complete down in Texas and we're going to start progressing through the commissioning phase. So, all in all, things are lining up. I will remind folks though we do have an asset life extension on the SeaRose FPSO and that will take about nine months here in 2024. So we will come off station in early January and come back on production in late August, early September. And that extension really is setting us up for the drilling activity that will happen in 2026 and making sure the asset can stay in place to kind of end of life. So, all in all, I would say it's a big project, but it's trending well, kind of as per our expectations on both cost and schedule.

Menno Hulshof — Analyst, TD Securities

Thanks a lot. I'll turn it back.

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

Thanks, Menno.

Operator

Thank you. Your next question is from John Royall from J.P. Morgan. Please ask your question.

John Royall — Analyst, J.P. Morgan

Hi. Good morning. Thanks for taking my question. So, just wanted to clarify one thing on the capital allocation. You are, it sounds like, including the warrant pay down in your calculation for the 50% allocation and then any update you can give us on potential timing of getting to that floor would be helpful. Thanks.

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

Sure. We get that question about every quarter, so Kam, I think you're well practiced at this one.

Kam Sandhar — Executive Vice-President & Chief Financial Officer, Cenovus Energy Inc.

Sure. So, just on the warrant, would just highlight, so remember the time when we announced the transaction on the warrant purchase, we did remind everybody that the warrant pay down will be included as part of our shareholder framework. So, to the extent that we pay that liability down, it will be included as part of that 50% of excess free funds flow that we allocate to shareholder returns. So, as Jon mentioned, we paid $600 million of that through Q3 on top of the $360 million of buybacks we did and so, going to Q4, you should expect us to pay that warrant liability completely, the remaining $111 million with the incremental either going back to share buybacks or variable dividends.

And then on your second question just around the debt, I think what I would just say is right now, the focus for us, what the team has talked about, is executing the base business, focusing on continuing to progress these growth projects, moving the downstream to continued improvement on reliability and sustained throughput. And the function of our debt is really going to be dependent on that and commodity prices. So I think we'll get there when we get there. I don't think I can give you a timeline just given we've seen a lot of volatility in commodity pricing even in the last month or two. So that timing is going to move around, but I would tell you the focus is absolutely in getting there as quickly as we can.

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

And, John, I think the important piece, is we are just operating this business with a focus of getting to $4 billion as quickly and as prudently as we can. One of the things that you can count on us is that we will continue on that trajectory unimpeded until we get there.

John Royall — Analyst, J.P. Morgan

Great. Thank you. Fair enough. And then you've talked about being happy kind of with your portfolio as is, but you've also talked about not wanting to be in 50/50 JVs. You still have the one JV on the downstream side that's hanging out there and your partner has now rolled out an asset sale target. How are you thinking about that structure right now with WRB?

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

We've been really clear on that set of assets for years now and we have been clear that we want to own and operate those assets that we see as core. We've been also clear that we are more likely sellers of those assets than buyers of those assets. And we've also been clear there's a fairly healthy bid/ask spread that has persisted through time. So I don't want to comment on what Phillips is proposing within their portfolio. What we're focused on is running the business and we're quite happy with holding that JV through the long term if that's required.

John Royall — Analyst, J.P. Morgan

Thank you.

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

All right. Thanks, John.

Operator

Thank you. Your next question is from Greg Pardy from RBC Capital Markets. Please ask your question.

Greg Pardy — Analyst, RBC Capital Markets

Hey, thanks. Good morning. Thanks for the rundown, guys. You've got lots of capacity on Trans Mountain, just curious how you're thinking about timing. But perhaps more importantly, how will your marketing strategy work? So will you sort of look to sell at the dock then to tankers or are you looking at something perhaps more integrated with markets in Asia and so on?

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

It's a great question, Greg. It's something we're spending a lot of time on. So I'm going to turn this one over to Drew, because Drew is right in the middle of this right now.

Drew Zieglgansberger — Executive Vice-President & Chief Commercial Officer, Cenovus Energy Inc.

Sure. Good morning, Greg. Thanks for the question. Maybe to kind of speak on kind of the premise of TMX, we're really pleased that it's still continuing and progressing and I think, even with these latest route change approvals and whatnot, I think it's still pretty positive that that line is going to come into service here in Q2 2024. So what you can expect from us is that we're probably going to get a call on line fill early in the new year. So with that, we're going to see a working capital build in order to fulfill our kind of volume commitment there.

And then how we're thinking about that, you know, being one of the biggest shippers on that line, is that we're also planning for some obvious start-up variability. I mean a line like that, it's pretty substantive and getting that operation up and running to a smooth rate is likely to also take some time. So we expect through 2024 to kind of manage that with probably a little bit of bumpiness in all reality. So how we're thinking from a marketing strategy is that we're going to initially be looking to secure some agreements and supply FOB at the dock itself. We're going to want to see that get up to a good stable rate. However, we do have some intention to get into new markets. It gives us another great tool and a suite potentially into global markets. We've obviously got some good connections and access into Asian markets with some of our offshore work over in Indonesia and China. So, yeah, we are looking at that as a full suite of a new market access for us, but we're going to do the right thing as we go into 2024, make sure that, once they get up and operating, that we can see the reliability of that get there, which I think will take a bit of time, and we'll step ourselves into FOB going on to the water at some point and accessing those new markets that TMX is going to allow us all to go after.

Greg Pardy — Analyst, RBC Capital Markets

Terrific. That is helpful and we look forward to hearing more about it as we go. And it's kind of a good segue into net working capital and I guess a question for Kam is good cash flow generation, obviously there are headwinds and there's an increase in pricing, as Jon alluded to. What does the balance of the year look like? And the reason I ask that, obviously a $65,000 a question with you guys, is when does the Company get to $4 billion? Just curious what your thinking is there.

Kam Sandhar — Executive Vice-President & Chief Financial Officer, Cenovus Energy Inc.

Thanks, Greg. So just on the working capital, so a couple of things I would highlight. When you look at Q2 relative to where we ended Q3, first off, remember we did book the liability associated with the warrant purchase, which was that full $711 million. So we drew that down at the end of Q3 for $600 million, so that was partly what drove working capital up in Q3 relative to Q2.

The second piece I would just say is when you look at our inventory, didn't see a lot of change from a volume perspective relative to where we were in Q2, but obviously prices moved up significantly quarter over quarter, which is the lion's share of the increase that you've seen in the working capital. But as we move into the fourth quarter, obviously things continue to move around as we look at our marketing strategy on selling our barrels, but I don't expect a big change. And Drew kind of highlighted the one sort of more structural change that you'll see in Q1 when we add more barrels into the system for the line fill associated with TMX.

Greg Pardy — Analyst, RBC Capital Markets

Okay. Understood. Thanks very much.

Operator

Thank you. Ladies and gentlemen, as a reminder, you can join the queue to ask a question by pressing star one. Your next question is from Manav Gupta from UBS. Please ask your question.

Manav Gupta — Analyst, UBS

Thank you, guys. A little bit of a macro question here. We have seen some widening of WCS here. Can you help us understand what's exactly going on? And then where do you see this spread once, as you said, TMX does come online in 2Q? If you could help us understand some of those things.

Drew Zieglgansberger — Executive Vice-President & Chief Commercial Officer, Cenovus Energy Inc.

Sure. Good morning, Manav. It's Drew. Great question. As you've alluded to, the differential has widened here. And that was not unexpected. We've had some incremental growth come out of the basin here over the course of this year and, you know, with condensate pricing and whatnot being quite attractive, people are really moving a lot of sales volumes. So we expected this to widen out and, as I alluded to with TMX coming on, I think in the near term people also probably saw some of those potential delays and construction issues that have kind of come out as of late and I think people probably shifted some of their positions on timing. But we fully expect, as the line fill even starts here early in the new year, I think you'll start to see things already start to head down the path of tightening back up. And then as it comes into full operation into Q2 we do expect in the second half of next year for it to tighten back up to what we saw when we had some egress space here earlier this year and late last year. So we would expect it to come down substantially from where it is, probably in the order of half of what we're seeing today, but that probably won't show itself until it's actually up and operational and probably gets through some of its bumpiness as it starts up.

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

Manav, I'd say one of the big differences this year from last year, and we certainly saw differentials widen last year when we had the Keystone outage and the like, but with the downstream up and running and performing the way it is, does insulate us from a lot of those wider spreads that we were exposed to last year. So, while at a corporate level we'd still like to see narrower spreads, we're much less exposed to that kind of widening through the fourth and first quarter of this year than we were last year. So we're, again, really pleased to have those refining assets up running and performing well.

Manav Gupta — Analyst, UBS

Perfect. I'm going to ask a follow-up question. Based on the response you provided John, I'm going to follow up on this. As it relates to those two assets, sir, is it more of a case of the price or is it more of a case that you always thought of Toledo as a core asset you want to operate and these two you don't actually fit that picture? Which one is it more, is it price or is it more that they don't fit?

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

What I want to tell you is Toledo is an absolutely core asset for us. It consumes 90,000 barrels a day of heavy and it consumes the molecules that we produce inside our upstream. It consumes Christina Lake and it consumes Sunrise heavy oil and provides us insulation against heavy oil differentials and location differentials. So it's an absolutely core asset for us and a key piece of infrastructure.

What I don't want to do is give anybody the impression that we're doing anything other than focusing on our base business right now and our core set of assets that we have. Our intention is to continue to build on the operating momentum we have, drive our debt down to $4 billion, move to 100% shareholder payout. That is our focus right now. And I understand there's rumours swirling, but they shouldn't be.

Manav Gupta — Analyst, UBS

Thank you. Congrats on a great quarter and good to see downstream make a material big contribution. Thank you, sir.

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

Thank you very much. Appreciate the questions.

Operator

Thank you. Once again, as a reminder, you can join the queue to ask a question by pressing star one. There are no further questions. That concludes our question-and-answer session. I will hand the call back to Mr. McKenzie for the closing remarks.

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

Okay. Well, thank you very much, everybody. We certainly appreciate your interest in the Company and wish you the best and we'll talk to you again in the new year. Thank you.

Operator

Thank you. Ladies and gentlemen, the conference has now ended. Thank you all for joining. You may all disconnect.