Cenovus Energy Inc.

Consolidated Financial Statements

For the Year Ended December 31, 2009

(U.S. Dollars)

Report of Management

Management's Responsibility for the Consolidated Financial Statements

The accompanying Consolidated Financial Statements of Cenovus Energy Inc. ("Cenovus") are the responsibility of Management. The Consolidated Financial Statements have been prepared by Management in United States dollars in accordance with Canadian generally accepted accounting principles and include certain estimates that reflect Management's best judgments.

The Board of Directors has approved the information contained in the Consolidated Financial Statements. The Board of Directors fulfills its responsibility regarding the financial statements mainly through its Audit Committee which is made up of three independent directors. The Audit Committee has a written mandate that complies with the current requirements of Canadian securities legislation and the United States *Sarbanes-Oxley Act of 2002* and voluntarily complies, in principle, with the Audit Committee guidelines of the New York Stock Exchange. The Audit Committee meets with Management and the independent auditors at least on a quarterly basis to review and approve interim Consolidated Financial Statements and Management's Discussion and Analysis prior to their release as well as annually to review the annual Consolidated Financial Statements and Management's Discussion and Analysis and recommend their approval to the Board of Directors.

Management's Assessment of Internal Control over Financial Reporting

Management is also responsible for establishing and maintaining adequate internal control over financial reporting. The internal control system was designed to provide reasonable assurance to Management regarding the preparation and presentation of the Consolidated Financial Statements.

Internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management has assessed the design and effectiveness of internal control over financial reporting as at December 31, 2009. In making its assessment, Management has used the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") framework in Internal Control–Integrated Framework to evaluate the design and effectiveness of internal control over financial reporting. Based on our evaluation, Management has concluded that internal control over financial reporting was effective as at that date.

PricewaterhouseCoopers LLP, an independent firm of Chartered Accountants, was appointed to audit and provide independent opinions on both the Consolidated Financial Statements and internal control over financial reporting as at December 31, 2009 as stated in their Auditors' Report. PricewaterhouseCoopers LLP has provided such opinions.

(signed)

Brian C. Ferguson
President &
Chief Executive Officer
Cenovus Energy Inc.

(signed)

Ivor M. Ruste
Executive Vice-President &
Chief Financial Officer
Cenovus Energy Inc.

February 17, 2010

Independent Auditors' Report

To the Shareholders of Cenovus Energy Inc.

We have completed integrated audits of Cenovus Energy Inc.'s 2009 and 2008 consolidated financial statements and of its internal control over financial reporting as of December 31, 2009 and an audit of its 2007 consolidated financial statements. Our opinions, based on our audits, are presented below.

Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Cenovus Energy Inc. as at December 31, 2009 and December 31, 2008, and the related consolidated statements of earnings and comprehensive income, shareholders' equity, and cash flows for each of the years in the three year period ended December 31, 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits of the Company's financial statements as at December 31, 2009 and December 31, 2008 and for each of the years in the two year period ended December 31, 2009 in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). We conducted our audit of the Company's financial statements for the year ended December 31, 2007 in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. A financial statement audit also includes assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and December 31, 2008 and the results of its operations and its cash flows for each of the years in the three year period ended December 31, 2009 in accordance with Canadian generally accepted accounting principles.

Internal Control over Financial Reporting

We have also audited Cenovus Energy Inc.'s internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Assessment of Internal Control over Financial Reporting. Our responsibility is to express an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal

control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009 based on criteria established in Internal Control — Integrated Framework issued by the COSO.

(signed)

PricewaterhouseCoopers LLP
Chartered Accountants
Calgary, Alberta
Canada

February 17, 2010

CONSOLIDATED STATEMENT OF EARNINGS AND COMPREHENSIVE INCOME

For the years ended December 31, (US$ millions, except per share amounts)		**2009**	2008	2007
Revenues, Net of Royalties	*(Note 1)*	**10,140**	16,559	13,406
Expenses	*(Note 1)*			
Production and mineral taxes		**38**	75	63
Transportation and selling		**672**	963	756
Operating		**1,154**	1,223	1,114
Purchased product		**5,250**	9,710	7,476
Depreciation, depletion and amortization		**1,343**	1,318	1,426
General and administrative		**188**	167	145
Interest, net	*(Note 6)*	**218**	218	187
Accretion of asset retirement obligation	*(Note 14)*	**39**	39	28
Foreign exchange (gain) loss, net	*(Note 7)*	**290**	(250)	380
Other (income) loss, net		**(2)**	3	4
		9,190	13,466	11,579
Earnings Before Income Tax		**950**	3,093	1,827
Income tax expense	*(Note 8)*	**302**	725	423
Net Earnings		**648**	2,368	1,404
Other Comprehensive Income, Net of Tax				
Foreign Currency Translation Adjustment		**1,979**	(2,246)	1,265
Comprehensive Income		**2,627**	122	2,669
Net Earnings per Common Share	*(Note 19)*			
Basic		**0.86**	3.16	1.86
Diluted		**0.86**	3.15	1.84

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEET

As at December 31, (US$ millions)		2009	2008
Assets			
Current Assets			
Cash and cash equivalents		**148**	153
Accounts receivable and accrued revenues		**874**	598
Income tax receivable		**38**	-
Current portion of Partnership Contribution Receivable	*(Note 9)*	**330**	313
Risk management	*(Note 18)*	**58**	681
Inventories	*(Note 10)*	**836**	503
		2,284	2,248
Property, Plant and Equipment, net	*(Notes 1, 11)*	**14,537**	12,260
Partnership Contribution Receivable	*(Note 9)*	**2,504**	2,834
Risk Management	*(Note 18)*	**1**	38
Other Assets	*(Note 12)*	**131**	150
Goodwill	*(Note 1)*	**1,095**	936
		20,552	18,466
Liabilities and Shareholders' Equity			
Current Liabilities			
Accounts payable and accrued liabilities		**1,444**	1,114
Income tax payable		**-**	254
Current portion of Partnership Contribution Payable	*(Note 9)*	**325**	306
Risk management	*(Note 18)*	**67**	40
Current portion of long-term debt	*(Note 13)*	**-**	84
		1,836	1,798
Long-Term Debt	*(Note 13)*	**3,493**	2,952
Partnership Contribution Payable	*(Note 9)*	**2,532**	2,857
Risk Management	*(Note 18)*	**4**	-
Asset Retirement Obligation	*(Note 14)*	**1,096**	648
Other Liabilities		**54**	52
Future Income Taxes	*(Note 8)*	**2,357**	2,411
		11,372	10,718
Commitments and Contingencies	*(Note 20)*		
Shareholders' Equity	*(Note 15)*	**9,180**	7,748
		20,552	18,466

See accompanying Notes to Consolidated Financial Statements.

Approved by the Board

(signed)

Michael A. Grandin
Director
Cenovus Energy Inc.

(signed)

Patrick D. Daniel
Director
Cenovus Energy Inc.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(US$ millions)	Share Capital *(Note 15)*	Paid in Surplus *(Note 15)*	Retained Earnings	AOCI*	Owner's Net Investment	Total
Balance as of December 31, 2006	-	-	-	1,169	6,145	7,314
Net earnings	-	-	-	-	1,404	1,404
Net distribution to owner	-	-	-	-	(1,976)	(1,976)
Other comprehensive income (loss)	-	-	-	1,265	-	1,265
Balance as of December 31, 2007	-	-	-	2,434	5,573	8,007
Net earnings	-	-	-	-	2,368	2,368
Net distribution to owner	-	-	-	-	(381)	(381)
Other comprehensive income (loss)	-	-	-	(2,246)	-	(2,246)
Balance as of December 31, 2008	-	-	-	188	7,560	7,748
Net earnings	-	-	-	-	609	609
Net distribution to owner	-	-	-	-	(1,045)	(1,045)
Other comprehensive income (loss)	-	-	-	1,908	-	1,908
Owner's Net Investment at Arrangement date – November 30, 2009	-	-	-	2,096	7,124	9,220
Issuance of common stock in connection with the Arrangement	2,222	-	-	-	(2,222)	-
Reclassification of owner's net investment to paid in surplus in connection with the Arrangement	-	4,902	-	-	(4,902)	-
Net earnings – December 1 to December 31	-	-	39	-	-	39
Dividends on common shares	-	(151)	-	-	-	(151)
Common shares issued under option plans	1	-	-	-	-	1
Other comprehensive income (loss)	-	-	-	71	-	71
Balance as of December 31, 2009	**2,223**	**4,751**	**39**	**2,167**	**-**	**9,180**

*Accumulated Other Comprehensive Income

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the years ended December 31, (US$ millions)		**2009**	2008	2007
Operating Activities				
Net earnings		**648**	2,368	1,404
Depreciation, depletion and amortization		**1,343**	1,318	1,426
Future income taxes	*(Note 8)*	**(551)**	385	(182)
Unrealized (gain) loss on risk management	*(Note 18)*	**667**	(734)	348
Unrealized foreign exchange (gain) loss		**313**	(259)	383
Accretion of asset retirement obligation	*(Note 14)*	**39**	39	28
Other		**13**	(29)	129
Net change in other assets and liabilities		**(23)**	(89)	(48)
Net change in non-cash working capital		**1,047**	(312)	(474)
Cash From Operating Activities		**3,496**	2,687	3,014
Investing Activities				
Capital expenditures	*(Note 1)*	**(1,895)**	(2,046)	(1,489)
Proceeds from divestitures	*(Note 5)*	**209**	47	-
Net change in other assets		**(18)**	(48)	(34)
Net change in non-cash working capital		**(76)**	83	(10)
Cash (Used in) Investing Activities		**(1,780)**	(1,964)	(1,533)
Net Cash Provided before Financing Activities		**1,716**	723	1,481
Financing Activities				
Net issuance (repayment) of revolving long-term debt		**(304)**	(503)	(148)
Issuance of long-term debt		**173**	268	931
Repayment of long-term debt		**(88)**	(236)	(99)
Issuance of U.S. Unsecured Notes	*(Note 13)*	**3,468**	-	-
Payment of note payable to EnCana	*(Note 13)*	**(3,500)**	-	-
Payment of transition account payable to EnCana		**(250)**	-	-
Net financing transactions with EnCana		**(1,045)**	(381)	(1,976)
Issuance of common shares		**1**	-	-
Dividends on common shares		**(151)**	-	-
Other		**(34)**	-	-
Cash (Used in) Financing Activities		**(1,730)**	(852)	(1,292)
Foreign Exchange Gain (Loss) on Cash and Cash Equivalents Held in Foreign Currency		**9**	(20)	7
Increase (Decrease) in Cash and Cash Equivalents		**(5)**	(149)	196
Cash and Cash Equivalents, Beginning of Year		**153**	302	106
Cash and Cash Equivalents, End of Year		**148**	153	302
Supplemental Cash Flow Information	*(Note 19)*			

See accompanying Notes to Consolidated Financial Statements.

1. DESCRIPTION OF BUSINESS AND SEGMENTED DISCLOSURES

Cenovus Energy Inc. ("Cenovus" or the "Company") is in the business of the development, production and marketing of bitumen, crude oil, natural gas and natural gas liquids ("NGLs") in Canada with refining operations in the United States.

The Company is headquartered in Calgary, Alberta and its common shares are listed on the Toronto and New York stock exchanges. Information on the Company's background and the basis of presentation for these financial statements are found in Note 2.

Cenovus is organized into two operating divisions:

- **Integrated Oil** Division, which includes all of the assets within the upstream and downstream integrated oil business with our joint venture partner, as well as other bitumen interests and the Athabasca natural gas assets. The Integrated Oil Division has assets in both Canada and the U.S. including two major enhanced oil recovery properties: (i) Foster Creek; and (ii) Christina Lake; as well as two refineries: (i) Wood River; and (ii) Borger.

- **Canadian Plains** Division, which contains established crude oil and natural gas development assets in Alberta and Saskatchewan and includes two major enhanced oil recovery properties: (i) Weyburn; and (ii) Pelican Lake; as well as the Southern Alberta oil and gas properties. The division also markets Cenovus's crude oil and natural gas, as well as third-party purchases and sales of product that provide operational flexibility for transportation commitments, product type, delivery points and customer diversification.

For financial statement reporting purposes, our operating and reportable segments are:

- **Upstream Canada,** which includes Cenovus's development and production of bitumen, crude oil, natural gas and natural gas liquids ("NGLs"), and other related activities in Canada. This includes the Foster Creek and Christina Lake operations which are jointly owned with ConocoPhillips, an unrelated U.S. public company, and operated by Cenovus.

- **Downstream Refining,** which is focused on the refining of crude oil into petroleum and chemical products at two refineries located in the United States. The refineries are jointly owned with ConocoPhillips and operated by ConocoPhillips.

- **Corporate and Eliminations,** which primarily includes unrealized gains or losses recorded on derivative financial instruments as well as other Cenovus-wide costs for general and administrative and financing activities. As financial instruments are settled, realized gains and losses are recorded in the operating segment to which the derivative instrument relates. Eliminations relate to sales and operating revenues and purchased product between segments recorded at transfer prices based on current market prices and to unrealized intersegment profits in inventory.

The operating and reportable segments shown above have been changed from those presented in prior periods to match Cenovus's structure. All prior periods have been restated to reflect this presentation.

The tabular financial information which follows presents the segmented information first by segment and geographic location, then by product and operating division. Capital expenditures, goodwill, sales information and information relating to Cenovus's major customers are summarized at the end of the note.

1. DESCRIPTION OF BUSINESS AND SEGMENTED DISCLOSURES (continued)

Results of Operations

Segment and Geographic Information

	Upstream Canada			Downstream Refining		
For the years ended December 31, (US$ millions)	**2009**	2008	2007	**2009**	2008	2007
Revenues, Net of Royalties	**5,598**	6,972	6,528	**5,280**	9,011	7,315
Expenses						
Production and mineral taxes	**38**	75	63	**-**	-	-
Transportation and selling	**672**	963	756	**-**	-	-
Operating	**671**	742	688	**453**	492	428
Purchased product	**832**	1,101	1,751	**4,517**	8,760	5,813
Operating cash flow	**3,385**	4,091	3,270	**310**	(241)	1,074
Depreciation, depletion and amortization	**1,101**	1,107	1,222	**192**	188	159
Segment Income (Loss)	**2,284**	2,984	2,048	**118**	(429)	915
Property, Plant & Equipment	**9,660**	8,148	9,574	**4,767**	4,032	3,706
Goodwill	**1,095**	936	1,159	**-**	-	-
Total Assets	**14,481**	12,863	15,569	**5,660**	4,637	4,887

	Corporate and Eliminations			Consolidated		
For the years ended December 31, (US$ millions)	**2009**	2008	2007	**2009**	2008	2007
Revenues, Net of Royalties	**(738)**	576	(437)	**10,140**	16,559	13,406
Expenses						
Production and mineral taxes	**-**	-	-	**38**	75	63
Transportation and selling	**-**	-	-	**672**	963	756
Operating	**30**	(11)	(2)	**1,154**	1,223	1,114
Purchased product	**(99)**	(151)	(88)	**5,250**	9,710	7,476
	(669)	738	(347)	**3,026**	4,588	3,997
Depreciation, depletion and amortization	**50**	23	45	**1,343**	1,318	1,426
Segment Income (Loss)	**(719)**	715	(392)	**1,683**	3,270	2,571
General and Administrative	**188**	167	145	**188**	167	145
Interest, net	**218**	218	187	**218**	218	187
Accretion of asset retirement obligation	**39**	39	28	**39**	39	28
Foreign exchange (gain) loss, net	**290**	(250)	380	**290**	(250)	380
Other (income) loss, net	**(2)**	3	4	**(2)**	3	4
	733	177	744	**733**	177	744
Earnings Before Income Tax				**950**	3,093	1,827
Income tax expense				**302**	725	423
Net Earnings (Loss)				**648**	2,368	1,404
Property, Plant & Equipment	**110**	80	104	**14,537**	12,260	13,384
Goodwill	**-**	-	-	**1,095**	936	1,159
Total Assets	**411**	966	531	**20,552**	18,466	20,987

1. DESCRIPTION OF BUSINESS AND SEGMENTED DISCLOSURES (continued)

Upstream Canada Product and Divisional Information

(US$ millions)	Crude Oil & NGLs								
	Integrated Oil			Canadian Plains			Total		
For the years ended December 31,	**2009**	2008	2007	**2009**	2008	2007	**2009**	2008	2007
Revenues, Net of Royalties	**1,202**	1,117	738	**1,373**	2,106	1,453	**2,575**	3,223	2,191
Expenses									
Production and mineral taxes	**-**	-	-	**24**	38	29	**24**	38	29
Transportation and selling	**430**	526	366	**179**	321	263	**609**	847	629
Operating	**176**	170	159	**229**	239	215	**405**	409	374
Purchased product	**-**	-	-	**-**	-	-	**-**	-	-
Operating Cash Flow	**596**	421	213	**941**	1,508	946	**1,537**	1,929	1,159

(US$ millions)	Natural Gas								
	Integrated Oil			Canadian Plains			Total		
For the years ended December 31,	**2009**	2008	2007	**2009**	2008	2007	**2009**	2008	2007
Revenues, Net of Royalties	**180**	192	252	**1,902**	2,301	2,186	**2,082**	2,493	2,438
Expenses									
Production and mineral taxes	**-**	-	-	**13**	36	34	**13**	36	34
Transportation and selling	**2**	7	12	**39**	71	82	**41**	78	94
Operating	**20**	39	40	**210**	241	221	**230**	280	261
Purchased product	**-**	-	-	**-**	-	-	**-**	-	-
Operating Cash Flow	**158**	146	200	**1,640**	1,953	1,849	**1,798**	2,099	2,049

(US$ millions)	Other								
	Integrated Oil			Canadian Plains			Total		
For the years ended December 31,	**2009**	2008	2007	**2009**	2008	2007	**2009**	2008	2007
Revenues, Net of Royalties	**73**	119	75	**868**	1,137	1,824	**941**	1,256	1,899
Expenses									
Production and mineral taxes	**1**	1	-	**-**	-	-	**1**	1	-
Transportation and selling	**22**	38	23	**-**	-	10	**22**	38	33
Operating	**18**	31	30	**18**	22	23	**36**	53	53
Purchased product	**-**	-	-	**832**	1,101	1,751	**832**	1,101	1,751
Operating Cash Flow	**32**	49	22	**18**	14	40	**50**	63	62

(US$ millions)	Total Upstream Canada								
	Integrated Oil			Canadian Plains			Total		
For the years ended December 31,	**2009**	2008	2007	**2009**	2008	2007	**2009**	2008	2007
Revenues, Net of Royalties	**1,455**	1,428	1,065	**4,143**	5,544	5,463	**5,598**	6,972	6,528
Expenses									
Production and mineral taxes	**1**	1	-	**37**	74	63	**38**	75	63
Transportation and selling	**454**	571	401	**218**	392	355	**672**	963	756
Operating	**214**	240	229	**457**	502	459	**671**	742	688
Purchased product	**-**	-	-	**832**	1,101	1,751	**832**	1,101	1,751
Operating Cash Flow	**786**	616	435	**2,599**	3,475	2,835	**3,385**	4,091	3,270

1. DESCRIPTION OF BUSINESS AND SEGMENTED DISCLOSURES (continued)

Capital Expenditures

For the years ended December 31, (US$ millions)	2009	2008	2007
Integrated Oil	**476**	644	450
Canadian Plains	**478**	872	795
Upstream Canada	**954**	1,516	1,245
Downstream Refining	**907**	478	220
Corporate	**31**	52	10
	1,892	2,046	1,475
Acquisition Capital			
Integrated Oil	**-**	-	14
Canadian Plains	**3**	-	-
Total	**1,895**	2,046	1,489

In addition to the above, in 2009 we acquired strategic bitumen lands in exchange for certain non-core holdings.

Goodwill Additions

There were no additions to goodwill during 2009, 2008 or 2007; changes in the goodwill balance result from changes in foreign exchange rates.

Export Sales

Sales of crude oil, natural gas and NGLs produced or purchased in Canada delivered to customers outside of Canada were $544 million (2008–$1,296 million; 2007–$943 million).

Major Customers

In connection with the marketing and sale of Cenovus's own and purchased crude oil, natural gas and refined products for the year ended December 31, 2009, Cenovus had two customers (2008–two; 2007–two) which individually accounted for more than 10 percent of its consolidated revenues, net of royalties. Sales to these customers, major international integrated energy companies with an investment grade credit rating, were approximately $5,658 million (2008–$8,979 million; 2007–$6,916 million).

2. BACKGROUND & BASIS OF PRESENTATION

Cenovus was created on November 30, 2009 and began independent operations on December 1, 2009, as a result of the Arrangement involving EnCana Corporation ("EnCana") whereby EnCana was split into two independent energy companies, one a natural gas company, EnCana and the other an integrated oil company, Cenovus. In connection with the Arrangement, EnCana common shareholders received one share in each of the new EnCana and Cenovus in exchange for each EnCana share held. Common shares of Cenovus began trading on a "when issued" basis on the Toronto ("TSX") and New York ("NYSE") stock exchanges on November 2, 2009. Regular trading of the Cenovus shares began on the TSX on December 3, 2009 and on the NYSE on December 9, 2009.

Cenovus has entered into various transitional agreements with EnCana for the use of certain technical services, the marketing of crude oil, natural gas and NGLs and office space lease arrangements. These agreements reflect terms negotiated in anticipation of each company being stand-alone public companies, each with independent boards of directors and management teams.

2. BACKGROUND & BASIS OF PRESENTATION (continued)

Accordingly, up until the completion of the Arrangement, EnCana was considered a related party due to its parent-subsidiary relationship with the Cenovus entities. However, subsequent to the Arrangement, EnCana is no longer a related party as defined by the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3840 – Related Party Transactions.

Basis of presentation / Carve-out financial information

The Consolidated Financial Statements for the year ended December 31, 2009 include the results for the period from January 1 to November 30, 2009 prior to the Arrangement with EnCana, in addition to the results for the period from December 1 to December 31, 2009 as described below. The consolidated financial results for the periods prior to December 1, 2009 represent the financial position, results of operations and cash flows of the businesses transferred to Cenovus on a carve-out basis.

The historical financial information prior to December 1, 2009 has been derived from the accounting records of EnCana using the historical results of operations and historical basis of assets and liabilities of the businesses transferred to Cenovus on a carve-out accounting basis.

As the Company operated as part of EnCana and was not a stand-alone entity prior to November 30, 2009, the historical Consolidated Financial Statements include allocations of certain EnCana revenues, expenses, assets and liabilities, including the items described below.

The operating results of Cenovus were specifically identified based on EnCana's divisional organization. Certain other expenses presented in the Consolidated Statement of Earnings and Comprehensive Income represent allocations and estimates of the cost of services incurred by EnCana. These allocations and estimates include unrealized mark-to-market gains and losses, general and administrative costs, net interest, foreign exchange gains and losses and income tax expenses. The majority of the assets and liabilities of Cenovus have been identified based on the divisional structure, with the most significant exceptions being property, plant and equipment ("PP&E"), income taxes payable and long-term debt.

Downstream refining, crude oil and natural gas marketing and corporate depreciation, depletion and amortization have been specifically identified based on EnCana's existing divisional structure where possible. Depletion related to upstream properties has been allocated to Cenovus based on the related production volumes utilizing the depletion rate calculated for EnCana's consolidated Canadian cost centre.

Mark-to-market gains and losses resulting from derivative financial instruments entered into by EnCana have been allocated to Cenovus based on the related product volumes.

Salaries, benefits, pension, long-term incentives and other post-employment benefits costs, assets and liabilities have been allocated to Cenovus based on Management's best estimate of how services were historically provided by existing employees. Costs, assets and liabilities associated with retired employees remain with EnCana.

Net interest expense has been calculated primarily using the debt balance allocated to Cenovus.

Income taxes have been recorded as if Cenovus and its subsidiaries had been separate tax paying legal entities, each filing a separate tax return in its local jurisdiction. The calculation of income taxes is based on a number of assumptions, allocations and estimates, including those used to prepare the Cenovus Carve-out Consolidated Financial Statements. Prior to the Arrangement, Cenovus's tax pools were allocated for the Canadian cost centre based on the fair value allocation of PP&E for carve-out purposes.

2. BACKGROUND & BASIS OF PRESENTATION (continued)

PP&E related to upstream oil and gas activities are accounted for by Cenovus using the full cost method of accounting. PP&E related to upstream oil and gas activities has been determined based on an allocation process which used the ratio of future net revenue, discounted at 10 percent, of the respective divisions to the future net revenue, discounted at 10 percent, of all proved properties in Canada at December 31, 2008 and December 31, 2007, respectively. Future net revenue is the estimated net amount to be received with respect to development and production of crude oil and natural gas reserves.

Goodwill has been allocated to Cenovus based on the properties associated with the former business combinations on which it arose.

For the purpose of preparing the Carve-out Consolidated Financial Statements, it was determined that Cenovus should maintain approximately the same Debt to Capitalization ratio as consolidated EnCana. As a result, prior to the Arrangement, debt was allocated to Cenovus based on this ratio. Debt is defined as the current and long-term portions of Long-term Debt. Capitalization is not a term that has a prescribed meaning under generally accepted accounting principles ("non-GAAP") and is a measure defined as Debt plus Shareholders' Equity.

Management believes the assumptions underlying the Cenovus Carve-out Consolidated Financial Statements are reasonable. However, the Cenovus Consolidated Financial Statements herein may not reflect Cenovus's financial position, results of operations, and cash flows had Cenovus been a stand-alone company during the periods presented or what Cenovus's operations, financial position, and cash flows will be in the future. EnCana's direct investment in Cenovus is shown as Net Investment in place of Shareholders' Equity because a direct ownership by shareholders in Cenovus did not exist prior to November 30, 2009. EnCana's investment includes the accumulated net earnings, other comprehensive income and net cash distributions to EnCana.

In the opinion of Management, the Consolidated and the historical Carve-out Consolidated Financial Statements reflect all adjustments (including normal recurring adjustments) necessary for a fair statement of the financial position and the results of operations and cash flows in accordance with Canadian generally accepted accounting principles ("Canadian GAAP").

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In these Consolidated Financial Statements, unless otherwise indicated, all dollars are expressed in United States (U.S.) dollars. While Cenovus's reporting currency is U.S. dollars, the functional currency is Canadian dollars. All references to US$ or $ are to U.S. dollars and references to C$ are to Canadian dollars.

A) Principles of Consolidation

The Consolidated Financial Statements include the accounts of Cenovus and its subsidiaries and are presented in accordance with Canadian GAAP. Information prepared in accordance with GAAP in the United States is included in Note 21.

Investments in jointly controlled partnerships and unincorporated joint ventures carry on certain of Cenovus's development, production and crude oil refining businesses and are accounted for using the proportionate consolidation method, whereby Cenovus's proportionate share of revenues, expenses, assets and liabilities are included in the accounts.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B) Foreign Currency Translation

The accounts of self-sustaining operations are translated using the current rate method, whereby assets and liabilities are translated at period end exchange rates, while revenues and expenses are translated using average rates over the period. Translation gains and losses relating to the self-sustaining operations are included in Accumulated Other Comprehensive Income ("AOCI") as a separate component of Shareholders' Equity. As at December 31, 2009, AOCI is comprised solely of foreign currency translation adjustments.

Monetary assets and liabilities of Cenovus that are denominated in foreign currencies are translated into its functional currency at the rates of exchange in effect at the period end date. Any gains or losses are recorded in the Consolidated Statement of Earnings.

C) Measurement Uncertainty

The timely preparation of the Consolidated Financial Statements in conformity with Canadian GAAP requires that Management make estimates and assumptions and use judgment regarding the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenues and expenses during the period. Such estimates primarily relate to unsettled transactions and events as of the date of the Consolidated Financial Statements. Accordingly, actual results may differ from estimated amounts as future confirming events occur.

Amounts recorded for depreciation, depletion and amortization, asset retirement costs and obligations and amounts used for ceiling test and impairment calculations are based on estimates of crude oil and natural gas reserves and future costs required to develop those reserves. By their nature, these estimates of reserves, including the estimates of future prices and costs, and the related future cash flows are subject to measurement uncertainty, and the impact in the Consolidated Financial Statements of future periods could be material.

The values of pension assets and obligations and the amount of pension costs charged to net earnings depend on certain actuarial and economic assumptions which, by their nature, are subject to measurement uncertainty.

The amount of compensation expense accrued for long-term performance-based compensation arrangements is subject to Management's best estimate of whether or not the performance criteria will be met and what the ultimate payout will be.

The estimated fair value of financial assets and liabilities, by their very nature, are subject to measurement uncertainty.

Tax interpretations, regulations and legislation in the various jurisdictions in which Cenovus operates are subject to change. As such, income taxes are subject to measurement uncertainty.

D) Revenue Recognition

Revenues associated with the sales of Cenovus's crude oil, natural gas, NGLs and petroleum and refined products are recognized when title passes from the Company to its customer. Realized gains and losses from crude oil and natural gas commodity price risk management activities are recorded in revenue when the product is sold.

Revenues and purchased product are recorded on a gross basis when the title to product passes and the risks and rewards of ownership have been transferred. Purchases and sales of products that are entered into in contemplation of each other with the same counterparty are recorded on a net basis. Revenues associated with the services provided as agent are recorded as the services are provided.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Unrealized gains and losses from natural gas and crude oil commodity price risk management activities are recorded as revenue based on the related mark-to-market calculations at the end of the respective period.

E) Production and Mineral Taxes

Costs paid to non-mineral interest owners based on production of crude oil, natural gas and NGLs are recognized when the product is produced.

F) Transportation and Selling Costs

Costs paid for the transportation and selling of crude oil, natural gas and NGLs, including diluent, are recognized when the product is delivered and the services provided.

G) Employee Benefit Plans

Accruals for obligations under the employee benefit plans and the related costs are recorded net of plan assets.

The cost of pensions and other post-employment benefits is actuarially determined using the projected benefit method based on length of service, and reflects Management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected future health care costs. The expected return on plan assets is based on the fair value of those assets. The accrued benefit obligation is discounted using the market interest rate on high quality corporate debt instruments as at the measurement date.

Pension expense for the defined benefit pension plan includes the cost of pension benefits earned during the current year, the interest cost on pension obligations, the expected return on pension plan assets, the amortization of the net transitional obligation, the amortization of adjustments arising from pension plan amendments and the amortization of the excess of the net actuarial gain or loss over 10 percent of the greater of the benefit obligation and the fair value of plan assets. Amortization is done on a straight-line basis over a period covering the expected average remaining service lives of employees covered by the plans.

Pension expense for the defined contribution pension plans is recorded as the benefits are earned by the employees covered by the plans.

H) Income Taxes

Cenovus follows the liability method of accounting for income taxes, where future income taxes are recorded for the effect of any difference between the accounting and income tax basis of an asset or liability, using the substantively enacted income tax rates. Accumulated future income tax balances are adjusted to reflect changes in income tax rates that are substantively enacted with the adjustment being recognized in net earnings in the period that the change occurs.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I) Earnings Per Share Amounts

Basic net earnings per common share is computed by dividing the net earnings by the weighted average number of common shares outstanding during the period. Diluted net earnings per share amounts are calculated giving effect to the potential dilution that would occur if stock options, without tandem share appreciation rights attached, were exercised or other contracts to issue common shares were exercised or converted to common shares. The treasury stock method is used to determine the dilutive effect of stock options without tandem share appreciation rights attached and other dilutive instruments. The treasury stock method assumes that proceeds received from the exercise of in-the-money stock options without tandem share appreciation rights attached are used to repurchase common shares at the average market price.

J) Cash and Cash Equivalents

Cash and cash equivalents include short-term investments, such as money market deposits or similar type instruments, with a maturity of three months or less when purchased.

K) Inventories

Product inventories, including petroleum and refined products, are valued at the lower of cost and net realizable value on a first-in, first-out or weighted average cost basis.

L) Property, Plant and Equipment

Upstream Canada

Crude oil and natural gas properties are accounted for in accordance with the CICA guideline on full cost accounting in the oil and gas industry. Under this method, all costs, including internal costs and asset retirement costs, directly associated with the acquisition of, the exploration for, and the development of bitumen, crude oil and natural gas reserves, are capitalized on a country-by-country cost centre basis.

Costs accumulated within each cost centre are depreciated, depleted and amortized using the unit-of-production method based on estimated proved reserves determined using estimated future prices and costs. For purposes of this calculation, natural gas is converted to oil on an energy equivalent basis. Capitalized costs subject to depletion include estimated future costs to be incurred in developing proved reserves. Proceeds from the divestiture of properties are normally deducted from the full cost pool without recognition of gain or loss unless that deduction would result in a change to the rate of depreciation, depletion and amortization of 20 percent or greater, in which case a gain or loss is recorded. Costs of major development projects and costs of acquiring and evaluating significant unproved properties are excluded, on a cost centre basis, from the costs subject to depletion until it is determined whether or not proved reserves are attributable to the properties, or impairment has occurred. Costs that have been impaired are included in the costs subject to depreciation, depletion and amortization.

An impairment loss is recognized in net earnings when the carrying amount of a cost centre is not recoverable and the carrying amount of the cost centre exceeds its fair value. The carrying amount of the cost centre is not recoverable if the carrying amount exceeds the sum of the undiscounted cash flows from proved reserves. If the sum of the cash flows is less than the carrying amount, the impairment loss is limited to the amount by which the carrying amount exceeds the sum of:

i. the fair value of proved and probable reserves; and
ii. the costs of unproved properties that have been subject to a separate impairment test.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Downstream Refining

The initial acquisition costs of refinery property, plant and equipment are capitalized when incurred. Costs include the cost of constructing or otherwise acquiring the equipment or facilities, the cost of installing the asset and making it ready for its intended use and the associated asset retirement costs. Capitalized costs are not subject to depreciation until the asset is put into use, after which they are depreciated on a straight-line basis over the estimated service lives of each component of the downstream facilities.

An impairment loss is recognized on refinery property, plant and equipment when the carrying amount is not recoverable and exceeds its fair value. The carrying amount is not recoverable if the carrying amount exceeds the sum of the undiscounted cash flows from expected use and eventual disposition. If the carrying amount is not recoverable, an impairment loss is measured as the amount by which the refinery asset exceeds the fair value.

Other

Costs associated with office furniture, fixtures, leasehold improvements, information technology and aircraft are carried at cost and depreciated on a straight-line basis over the estimated service lives of the assets, which range from three to 25 years. Assets under construction are not subject to depreciation until put into use.

M) Capitalization of Costs

Expenditures related to renewals or betterments that improve the productive capacity or extend the life of an asset are capitalized. Maintenance and repairs are expensed as incurred.

N) Amortization of Other Assets

Items included in Other Assets are amortized, where applicable, on a straight-line basis over the estimated useful lives of the assets.

O) Goodwill

Goodwill, which represents the excess of purchase price over fair value of net assets acquired, is assessed for impairment at least annually. Goodwill and all other assets and liabilities have been allocated to the country cost centre level, referred to as a reporting unit. To assess impairment, the fair value of the reporting unit is determined and compared to the book value of the reporting unit. If the fair value of the reporting unit is less than the book value, then a second test is performed to determine the amount of the impairment. The amount of the impairment is determined by deducting the fair value of the reporting unit's assets and liabilities from the fair value of the reporting unit to determine the implied fair value of goodwill and comparing that amount to the book value of the reporting unit's goodwill. Any excess of the book value of goodwill over the implied fair value of goodwill is the impairment amount.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

P) Asset Retirement Obligation

The fair value of estimated asset retirement obligations is recognized in the Consolidated Balance Sheet when incurred and a reasonable estimate of fair value can be made.

Asset retirement obligations include those legal obligations where Cenovus will be required to retire tangible long-lived assets such as producing well sites, natural gas processing plants, and refining facilities. The asset retirement cost, equal to the initially estimated fair value of the asset retirement obligation, is capitalized as part of the cost of the related long-lived asset. Changes in the estimated obligation resulting from revisions to estimated timing or amount of undiscounted cash flows are recognized as a change in the asset retirement obligation and the related asset retirement cost.

Amortization of asset retirement costs are included in depreciation, depletion and amortization in the Consolidated Statement of Earnings. Increases in the asset retirement obligation resulting from the passage of time are recorded as accretion of asset retirement obligation in the Consolidated Statement of Earnings.

Actual expenditures incurred are charged against the accumulated obligation.

Q) Stock-Based Compensation

Obligations for payments, cash or common shares, under Cenovus's stock options with tandem share appreciation rights attached, share appreciation rights and deferred share units plans are accrued using the intrinsic method as compensation cost over the vesting period. Fluctuations in the price of Cenovus's common shares change the accrued compensation cost and are recognized when they occur.

EnCana replacement share options with tandem share appreciation rights attached and share appreciation rights held by Cenovus employees are accrued using the fair value method. The fair value is recognized as compensation cost over the vesting period. Fluctuations in the fair value of the rights change the accrued compensation cost and are recognized when they occur.

R) Financial Instruments

Financial instruments are measured at fair value on initial recognition of the instrument, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as "held-for-trading", "available-for-sale", "held-to-maturity", "loans and receivables", or "other financial liabilities" as defined by the accounting standard.

Financial assets and financial liabilities "held-for-trading" are measured at fair value with changes in those fair values recognized in net earnings. Financial assets "available-for-sale" are measured at fair value, with changes in those fair values recognized in Other Comprehensive Income ("OCI"). Financial assets "held-to-maturity", "loans and receivables" and "other financial liabilities" are measured at amortized cost using the effective interest method of amortization.

Cash and cash equivalents are designated as "held-for-trading" and are measured at fair value. Accounts receivable and accrued revenues and the Partnership Contribution Receivable are designated as "loans and receivables". Accounts payable and accrued liabilities, the Partnership Contribution Payable and long-term debt are designated as "other financial liabilities". Long-term debt transaction costs, premiums and discounts are capitalized within long-term debt and amortized using the effective interest method.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative Financial Instruments

Risk management assets and liabilities are derivative financial instruments classified as "held-for-trading" unless designated for hedge accounting. Derivative instruments that do not qualify as hedges, or are not designated as hedges, are recorded using mark-to-market accounting whereby instruments are recorded in the Consolidated Balance Sheet as either an asset or liability with changes in fair value recognized in net earnings. Realized gains or losses from financial derivatives related to natural gas and crude oil commodity prices are recognized in natural gas and crude oil revenues as the related sales occur. Realized gains or losses from financial derivatives related to power commodity prices are recognized in operating costs as the related power costs are incurred. Unrealized gains and losses are recognized at the end of each respective reporting period. The estimated fair value of all derivative instruments is based on quoted market prices or, in their absence, third-party market indications and forecasts.

Derivative financial instruments are used to manage economic exposure to market risks relating to commodity prices, foreign currency exchange rates and interest rates. Derivative financial instruments are not used for speculative purposes.

Policies and procedures are in place with respect to the required documentation and approvals for the use of derivative financial instruments and specifically ties their use, in the case of commodities, to the mitigation of market price risk associated with cash flows expected to be generated from budgeted capital programs, and in other cases to the mitigation of market price risks for specific assets and obligations. When applicable, the Company identifies relationships between financial instruments and anticipated transactions, as well as its risk management objective and the strategy for undertaking the economic hedge transaction. Where specific financial instruments are executed, the Company assesses, both at the time of purchase and on an ongoing basis, whether the financial instrument used in the particular transaction is effective in offsetting changes in fair values or cash flows of the transaction.

S) Reclassification

Certain information provided for prior years has been reclassified to conform to the presentation adopted in 2009.

T) Recent Accounting Pronouncements

In February 2008, the CICA's Accounting Standards Board confirmed that International Financial Reporting Standards ("IFRS") will replace Canadian GAAP in 2011 for profit-oriented Canadian publicly accountable enterprises. Cenovus will be required to report its results in accordance with IFRS beginning in 2011. Cenovus has developed a changeover plan to complete the transition to IFRS by January 1, 2011, including the preparation of required comparative information. The impact of IFRS on the Consolidated Financial Statements is not reasonably determinable at this time.

In addition, there are three recent accounting pronouncements as noted below, which Cenovus will be required to adopt as of January 1, 2011. All of these standards are converged with IFRS.

- "Business Combinations", Section 1582, which replaces the previous Business Combinations standard. The standard requires assets and liabilities acquired in a business combination, contingent consideration and certain acquired contingencies to be measured at their fair values as of the date of acquisition. In addition, acquisition-related and restructuring costs are to be recognized separately from the business combination and included in the Statement of Earnings. The adoption of this standard will impact the accounting treatment of future business combinations.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- "Consolidated Financial Statements", Section 1601, which together with Section 1602 below, replace the former consolidated financial statement standard. Section 1601 establishes the requirements for the preparation of consolidated financial statements. The adoption of this standard should not have a material impact on Cenovus's Consolidated Financial Statements.

- "Non-controlling Interests", Section 1602, which establishes the accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The standard requires a non-controlling interest to be classified as a separate component of equity. In addition, net earnings, and components of other comprehensive income are attributed to both the parent and non-controlling interest. The adoption of this standard should not have a material impact on the Consolidated Financial Statements.

4. CHANGES IN ACCOUNTING POLICIES AND PRACTICES

On January 1, 2009, Cenovus adopted the CICA Handbook Section "Goodwill and Intangible Assets", Section 3064. The new standard replaces the previous goodwill and intangible asset standard and revises the requirement for recognition, measurement, presentation and disclosure of intangible assets. The adoption of this standard had no material impact on the Consolidated Financial Statements.

5. DIVESTITURES

For the years ended December 31, (US$ millions)	**2009**	2008	2007
Integrated Oil	**83**	8	-
Canadian Plains	**123**	39	-
Corporate	**3**	-	-
Canada	**209**	47	-

As part of on-going portfolio management efforts, in 2009 Cenovus received cash proceeds of $209 million related to the divestiture of certain oil and gas assets.

6. INTEREST, NET

For the years ended December 31, (US$ millions)	**2009**	2008	2007
Interest Expense–Long-Term Debt	**187**	194	185
Interest Expense–Other	**194**	213	225
Interest Income	**(163)**	(189)	(223)
	218	218	187

Interest Expense–Other and Interest Income are primarily due to the Partnership Contribution Payable and Receivable, respectively (See Note 9).

7. FOREIGN EXCHANGE (GAIN) LOSS, NET

For the years ended December 31, (US$ millions)	**2009**	2008	2007
Unrealized Foreign Exchange (Gain) Loss on:			
Translation of U.S. dollar debt issued from Canada	**(357)**	351	(268)
Translation of U.S. dollar Partnership Contribution Receivable issued from Canada	**478**	(608)	617
Other Foreign Exchange (Gain) Loss	**169**	7	31
	290	(250)	380

Other foreign exchange (gain) loss in 2009 includes a $107 million unrealized loss on the translation of U.S. dollar risk management assets and liabilities (2008–unrealized gain of $2 million; 2007–unrealized loss of $34 million) and a $50 million realized loss related to the timing of receipt of the $3.5 billion debt offering proceeds from escrow (see Note 13).

8. INCOME TAXES

The provision for income taxes is as follows:

For the years ended December 31, (US$ millions)	**2009**	2008	2007
Current			
Canada	**896**	362	432
United States	**(43)**	(22)	173
Total Current Tax	**853**	340	605
Future Tax	**(551)**	385	(182)
	302	725	423

The income tax provision in 2009 reflects the acceleration of the income tax impact of the dissolution of a partnership during the fourth quarter in conjunction with the Arrangement with EnCana.

Total income tax expense in 2009 was $302 million, which was $423 million lower than in 2008 due to lower earnings before income tax. Current income tax expense in 2009 was $853 million, compared to $340 million in 2008. The increase is largely attributable to the acceleration of income tax arising from the dissolution of EnCana's Canadian oil and gas partnership in connection with the Arrangement and the realization of significant hedging gains in 2009. Current tax expense for the three years is primarily an allocation of EnCana's income tax liability on a carve-out accounting basis and as a result, there is no income tax payable by Cenovus at the end of 2009. For 2009, there was a recovery of future income tax expense of $551 million compared to an expense of $385 million in 2008. The significant net recovery was due to the 2009 reversal of future tax on partnership income and unrealized mark-to-market hedging gains.

8. INCOME TAXES (continued)

The following table reconciles income taxes calculated at the Canadian statutory rate with the recorded income taxes:

For the years ended December 31, (US$ millions)	**2009**	2008	2007
Earnings Before Income Tax	**950**	3,093	1,827
Canadian Statutory Rate	**29.2%**	29.7%	32.3%
Expected Income Tax	**277**	917	590
Effect on Taxes Resulting from:			
Statutory and other rate differences	**(4)**	(79)	17
Effect of tax rate changes	**-**	-	(147)
Effect of legislative changes	**-**	-	(76)
Non-taxable downstream partnership (income) loss	**6**	6	(70)
International financing	**(118)**	(127)	-
Foreign exchange (gains) losses not included in net earnings	**67**	11	-
Non-taxable capital (gains) losses	**11**	(50)	45
Other	**63**	47	64
	302	725	423
Effective Tax Rate	**31.8%**	23.4%	23.2%

The net future income tax liability is comprised of:

As at December 31, (US$ millions)	**2009**	2008
Future Tax Liabilities		
Property, plant and equipment in excess of tax values	**2,535**	1,810
Timing of partnership items	**9**	470
Risk management	**16**	185
Other	**59**	-
Future Tax Assets		
Non-capital and net capital losses carried forward	**(231)**	(19)
Risk management	**(31)**	-
Other	**-**	(35)
Net Future Income Tax Liability	**2,357**	2,411

The approximate amounts of tax pools available are as follows:

As at December 31, (US$ millions)	**2009**	2008
Canada	**3,543**	4,092
United States	**2,489**	1,805
	6,032	5,897

Included in the above tax pools are $731 million (2008–$77 million) related to non-capital and net operating losses available for carry forward to reduce taxable income in future years. These losses expire no earlier than 2028.

9. PARTNERSHIP CONTRIBUTION RECEIVABLE AND PAYABLE

In connection with the Arrangement with EnCana, Cenovus acquired EnCana's assets which are jointly controlled with ConocoPhillips. On January 2, 2007, EnCana became a 50 percent partner in an integrated, North American oil business with ConocoPhillips which consists of an upstream entity and a downstream entity. The upstream entity contribution included assets from EnCana, primarily the Foster Creek and Christina Lake properties, with a fair value of $7.5 billion and a note receivable (Partnership Contribution Receivable) contributed from ConocoPhillips of an equal amount. For the downstream entity, ConocoPhillips contributed its Wood River and Borger refineries, located in Illinois and Texas, respectively, for a fair value of $7.5 billion and EnCana contributed a note payable (Partnership Contribution Payable) of $7.5 billion.

In accordance with Canadian GAAP, these entities have been accounted for using the proportionate consolidation method with the results of operations included in the Integrated Oil Division (See Note 1).

Partnership Contribution Receivable

This note receivable bears interest at a rate of 5.3 percent per annum. Equal payments of principal and interest are payable quarterly, with final payment due January 2, 2017. The current and long-term Partnership Contribution Receivable shown in the Consolidated Balance Sheet represents Cenovus's 50 percent share of this promissory note, net of payments to date.

Mandatory Receipts

(US$ millions)	2010	2011	2012	2013	2014	Thereafter	**Total**
Partnership Contribution Receivable	330	347	366	386	407	998	**2,834**

Partnership Contribution Payable

This note payable bears interest at a rate of 6.0 percent per annum. Equal payments of principal and interest are payable quarterly, with final payment due January 2, 2017. The current and long-term Partnership Contribution Payable amounts shown in the Consolidated Balance Sheet represents Cenovus's 50 percent share of this promissory note, net of payments to date.

Mandatory Payments

(US$ millions)	2010	2011	2012	2013	2014	Thereafter	**Total**
Partnership Contribution Payable	325	345	366	388	412	1,021	**2,857**

10. INVENTORIES

As at December 31, (US$ millions)	**2009**	2008
Product		
Upstream Canada	**255**	165
Downstream Refining	**563**	323
Parts and Supplies	**18**	15
	836	503

10. INVENTORIES (continued)

As a result of a significant decline in commodity prices in the latter half of 2008, Cenovus recorded a write-down of its product inventory by $152 million from cost to net realizable value. At December 31, 2009, the product turnover during the current year and the improvement in commodity prices resulted in a reversal of the prior year's write-down of $144 million.

The total amount of inventories recognized as an expense during the year was $4,442 million (2008–$8,749 million; 2007–$5,752 million).

11. PROPERTY, PLANT AND EQUIPMENT, NET

As at December 31, (US$ millions)	**2009**			2008		
	Cost	**Accumulated DD&A***	**Net**	Cost	Accumulated DD&A*	Net
Upstream Canada	**20,626**	**(10,966)**	**9,660**	16,638	(8,490)	8,148
Downstream Refining	**5,256**	**(489)**	**4,767**	4,347	(315)	4,032
Corporate and Eliminations	**373**	**(263)**	**110**	190	(110)	80
	26,255	**(11,718)**	**14,537**	21,175	(8,915)	12,260

* Depreciation, depletion and amortization

Upstream Canada property, plant and equipment includes internal costs directly related to exploration, development and construction activities of $103 million (2008–$96 million). Costs classified as general and administrative expenses have not been capitalized as part of the capital expenditures.

Costs in respect of significant unproved properties and major development projects are excluded from the country cost centre's depletable base. Downstream Refining assets not put into use are excluded from depreciable costs. At the end of the year these costs were:

As at December 31, (US$ millions)	**2009**	2008	2007
Upstream Canada	**615**	227	223
Downstream Refining	**1,305**	488	139
	1,920	715	362

The Canadian prices used in the ceiling test evaluation of Cenovus's crude oil and natural gas reserves at December 31, 2009 were:

	2010	2011	2012	2013	2014	Cumulative % Change to 2021
Crude Oil (C$/barrel)	59.82	62.61	65.57	60.79	59.93	(10)%
Natural Gas Liquids (C$/barrel)	65.72	65.93	66.14	67.03	66.32	1%
Natural Gas (C$/Mcf)	5.31	6.21	6.09	5.88	5.86	-%

12. OTHER ASSETS

As at December 31, (US$ millions)	**2009**	2008
Deferred Asset–Downstream Refining	**116**	134
Deferred Pension Plan and Savings Plan	**9**	8
Other	**6**	8
	131	150

13. LONG-TERM DEBT

As at December 31, (US$ millions)	Note	2009	2008
Canadian Dollar Denominated Debt			
Bank credit facilities	A	**31**	
U.S. Dollar Denominated Debt			
Bank credit facilities	A	**25**	
Unsecured notes	B	**3,500**	
		3,525	
Total Debt Principal		**3,556**	
Debt Discounts and Transaction Costs	C	**(63)**	
Current Portion of Long-Term Debt	D	**-**	
		3,493	2,952

Long-term debt at December 31, 2008 represents an allocation of Cenovus's proportionate share of EnCana's consolidated debt as at December 31, 2008. Long-term debt was allocated to Cenovus on the same proportion of Canadian and U.S. dollar denominated debt and with the same terms and conditions as EnCana's long-term debt. The effective average interest rate for long-term debt in 2009 was 5.7 percent (2008–5.5 percent).

A) Bank Credit Facilities

At December 31, 2009, Cenovus had in place an unsecured credit facility in the amount of C$2.5 billion or its equivalent amount in U.S. dollars. The revolving syndicated credit facility consists of two tranches, a C$2.0 billion 3-year tranche and a C$500 million 364-day tranche. The 3-year tranche matures in November 2012 and is extendible from time to time for a period of up to three years at the option of Cenovus and upon agreement from the lenders. The 364-day tranche matures in November 2010 and is extendible from time to time for a period of up to 364 days at the option of Cenovus and upon agreement from the lenders. If the facilities are not extended, the full amount of the outstanding principal will come due on the respective maturity dates.

Borrowings under both tranches are available by way of Bankers Acceptances, LIBOR based loans, prime rate loans or U.S. base rate loans. Bank credit outstanding at December 31, 2009 was drawn on the 3-year tranche and included prime rate and LIBOR based loans of $56 million.

B) U.S. Unsecured Notes

On September 18, 2009, a predecessor entity of Cenovus completed a private offering of senior unsecured notes for an aggregate principal amount of $3.5 billion, issued in three tranches, which are exempt from the registration requirements of the U.S. Securities Act of 1933 under Rule 144A and Regulation S. The net proceeds of the private offering along with $151 million deposited by the Company were placed into an escrow account pending the completion of the Arrangement with EnCana. Upon completion of the Arrangement, funds were released from escrow and the proceeds of the notes were then used to pay the note payable to EnCana of $3.5 billion as part of the Arrangement. On November 30, 2009, these notes became the direct, unsecured obligations of Cenovus.

(US$ millions)	2009
4.50% due September 15, 2014	**800**
5.70% due October 15, 2019	**1,300**
6.75% due November 15, 2039	**1,400**
	3,500

13. LONG-TERM DEBT (continued)

Cenovus has agreed to use its commercially reasonable efforts to cause a registration statement with respect to an offer to exchange the U.S. unsecured notes for a new issue of notes registered under the U.S. Securities Act to be declared effective no later than September 18, 2010.

At December 31, 2009, the Company is in compliance with all of the terms of its debt agreements.

C) Debt Discounts and Transaction Costs

During 2009, $67 million in transaction costs and discounts were recorded within long-term debt relating to the issuance of the U.S. unsecured notes and the placement of the bank credit facilities. The costs are being amortized using the effective interest method. For comparative purposes, the transaction costs and discounts allocated to Cenovus for 2008 were $2 million.

D) Mandatory Debt Payments

($ millions)	C$ Principal Amount	US$ Principal Amount	Total US$ Equivalent
2010	-	-	-
2011	-	-	-
2012	32	25	56
2013	-	-	-
2014	-	800	800
Thereafter	-	2,700	2,700
	32	3,525	3,556

14. ASSET RETIREMENT OBLIGATION

The aggregate carrying amount of the obligation associated with the retirement of upstream oil and gas assets and downstream refining facilities is as follows:

As at December 31, (US$ millions)	**2009**	2008
Asset Retirement Obligation, Beginning of Year	**648**	703
Liabilities Incurred	**5**	20
Liabilities Settled	**(33)**	(49)
Liabilities Divested	**(9)**	(1)
Change in Estimated Future Cash Flows	**342**	69
Accretion Expense	**39**	39
Foreign Currency Translation	**104**	(133)
Asset Retirement Obligation, End of Year	**1,096**	648

The change estimated future cash flows in 2009 is due to the increased estimate of costs to be incurred and the rate of discount used for the current year estimate. The total undiscounted amount of estimated cash flows required to settle the obligation is $5,430 million (2008–$3,189 million), which has been discounted using a weighted average credit-adjusted risk free rate of 6.23 percent (2008–6.76 percent). Most of these obligations are not expected to be paid for several years, or decades, in the future and will be funded from general resources at that time.

15. SHARE CAPITAL

Authorized

Cenovus is authorized to issue an unlimited number of Common Shares, an unlimited number of First Preferred Shares and an unlimited number of Second Preferred Shares.

Issued and Outstanding

Under the terms of the Arrangement described in Note 2, EnCana shareholders exchanged their EnCana share for one new EnCana Common Share and one Cenovus Common Share.

As at December 31, 2009	Number of Common Shares (millions)	Amount ($ millions)
Common Shares Issued Pursuant to the Arrangement	751.3	2,222
Common Shares Issued under Option Plans	-	1
Outstanding, End of Year	751.3	2,223

To determine Cenovus's share capital amount, EnCana's stated capital immediately prior to the Arrangement was split based on the relative fair market values of the EnCana and Cenovus Common Shares at the time of the initial exchange. Cenovus's share capital amount was deducted from EnCana's net investment with the remaining $4,902 million reclassified as Paid in Surplus. In December, Cenovus declared its share of a pre-Arrangement dividend of $0.20 per share, which was charged to Paid in Surplus. This dividend reflects an amount determined in connection with the Arrangement based on carve-out earnings and cash flows.

Under carve-out accounting, Owner's Net Investment represents the accumulated net earnings of the operations and the accumulated net distributions to EnCana. Accumulated Other Comprehensive Income ("AOCI") includes accumulated foreign currency translation adjustments. At the date of the Arrangement, EnCana's net investment in Cenovus was $7,124 million.

At December 31, 2009, there were 24 million Common Shares available for future issuance under stock option plans. There were no Preferred Shares outstanding as at December 31, 2009.

Net Investment

EnCana's net investment in the operations of Cenovus prior to the Arrangement is presented as total Net Investment in the Consolidated Financial Statements. Total Net Investment consists of Owner's Net Investment and AOCI.

Option Plans

Options granted under the plans are generally fully exercisable after three years and expire five years after the date granted.

15. SHARE CAPITAL (continued)

Cenovus Employee Stock Option Plan

Cenovus has stock-based compensation plans that allow employees to purchase Common Shares of the Company. Option exercise prices approximate the market price for the Common Shares on the date the options were issued. Options granted are exercisable at 30 percent of the number granted after one year, an additional 30 percent of the number granted after two years, and are fully exercisable after three years and expire five years after the original grant date. Options granted under predecessor and/or related company replacement plans expire up to 10 years from the date the options were granted. In addition, certain stock options granted are performance based. The performance based stock options vest and expire under the same terms and service conditions as the underlying option, and vesting is subject to Cenovus attaining prescribed performance relative to pre-determined key measures. All new options issued by the Company have an associated Tandem Share Appreciation Right ("TSAR") attached to them (see Note 17).

Cenovus Replacement Tandem Share Appreciation Rights ("Cenovus Replacement TSARs") Held By EnCana Employees

Under the terms of the Arrangement, each original EnCana TSAR was replaced with one EnCana Replacement TSAR and one Cenovus Replacement TSAR with terms and conditions similar to the original EnCana TSAR. EnCana is required to reimburse Cenovus in respect of cash payments made by Cenovus to EnCana's employees when these employees exercise a Cenovus Replacement TSAR and therefore, no compensation expense is recognized. No further Cenovus Replacement TSARs will be granted to EnCana employees.

EnCana employees can choose to exercise the Cenovus Replacement TSAR in exchange for a Cenovus common share or for cash. Cenovus has recorded a liability in the Consolidated Balance Sheet for Cenovus Replacement TSARs held by EnCana employees using the fair value method, with an offsetting account receivable from EnCana. The fair value of each Cenovus Replacement TSAR held by EnCana employees was estimated using the Black-Scholes-Merton model with weighted average assumptions as follows:

	2009
Risk Free Rate	**1.46%**
Dividend Yield	**3.16%**
Volatility	**34.18%**
Cenovus's Closing Common Share Price at December 31, 2009	**C$26.50**

The following tables summarize information related to the Cenovus Replacement TSARs held by EnCana employees:

As at December 31, 2009	Total Number of TSARs	Performance TSARs	Weighted Average Exercise Price (C$)
Replacement TSARs – Pursuant to the Arrangement	**23,047,704**	**10,491,119**	**27.14**
Exercised – SARs	**(29,840)**	**-**	**18.57**
Exercised – Options	**(1,206)**	**-**	**16.77**
Forfeited	**(71,321)**	**(28,476)**	**29.50**
Outstanding, End of December 31, 2009	**22,945,337**	**10,462,643**	**27.14**
Exercisable, End of December 31, 2009	**9,972,272**	**2,236,641**	**25.29**

15. SHARE CAPITAL (continued)

	Outstanding TSARs				Exercisable TSARS		
Range of Exercise Price (C$)	Total Number of TSARs	Performance TSARs	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price (C$)	Total Number of TSARs	Performance TSARs	Weighted Average Exercise Price (C$)
15.00 to 19.99	**1,097,538**	**-**	**0.13**	**18.21**	**1,097,538**	**-**	**18.21**
20.00 to 24.99	**3,965,161**	**-**	**1.13**	**22.95**	**3,948,676**	**-**	**22.94**
25.00 to 29.99	**12,096,882**	**7,280,249**	**3.12**	**26.50**	**3,340,019**	**1,563,747**	**26.75**
30.00 to 34.99	**5,593,956**	**3,182,394**	**3.08**	**32.83**	**1,528,499**	**672,894**	**32.68**
35.00 to 39.99	**109,450**	**-**	**3.41**	**37.14**	**32,835**	**-**	**37.14**
40.00 to 44.99	**80,850**	**-**	**3.44**	**42.77**	**24,255**	**-**	**42.77**
45.00 to 49.99	**1,500**	**-**	**3.39**	**45.56**	**450**	**-**	**45.56**
	22,945,337	**10,462,643**	**2.62**	**27.14**	**9,972,272**	**2,236,641**	**25.29**

16. CAPITAL STRUCTURE

Cenovus's capital structure is comprised of Shareholders' Equity plus Long-Term Debt. Cenovus's objectives when managing its capital structure are to maintain financial flexibility, preserve access to capital markets, ensure its ability to finance internally generated growth and to fund potential acquisitions while maintaining the ability to meet the Company's financial obligations as they come due.

Cenovus monitors its capital structure and short-term financing requirements using, among other things, non-GAAP financial metrics consisting of Debt to Capitalization and Debt to Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA"). These metrics are used to steward Cenovus's overall debt position as measures of Cenovus's overall financial strength. Debt is defined as the current and long-term portions of long-term debt excluding any amounts with respect to the Partnership Contribution Payable or Receivable.

Cenovus targets a Debt to Capitalization ratio of between 30 and 40 percent.

As at December 31, (US$ millions)	2009	2008
Debt	**3,493**	3,036
Shareholders' Equity	**9,180**	7,748
Total Capitalization	**12,673**	10,784
Debt to Capitalization ratio	**28%**	28%

Cenovus targets a Debt to Adjusted EBITDA of between 1.0 and 2.0 times.

As at December 31, (US$ millions)	2009	2008	2007
Debt	**3,493**	3,036	3,690
Net Earnings	**648**	2,368	1,404
Add (deduct):			
Interest, net	**218**	218	187
Income tax expense	**302**	725	423
Depreciation, depletion and amortization	**1,343**	1,318	1,426
Accretion of asset retirement obligation	**39**	39	28
Foreign exchange (gain) loss, net	**290**	(250)	380
Other (income) loss, net	**(2)**	3	4
Adjusted EBITDA	**2,838**	4,421	3,852
Debt to Adjusted EBITDA	**1.2x**	0.7x	1.0x

16. CAPITAL STRUCTURE (continued)

It is Cenovus's intention to maintain an investment grade rating to ensure it has continuous access to capital and the financial flexibility to fund its capital programs, meet its financial obligations and finance potential acquisitions. Cenovus will maintain a high level of capital discipline and manage its capital structure to ensure sufficient liquidity through all stages of the economic cycle. To manage the capital structure, Cenovus may adjust capital and operating spending, adjust dividends paid to shareholders, purchase shares for cancellation pursuant to normal course issuer bids, issue new shares, issue new debt, draw down on its credit facility or repay existing debt.

Cenovus's capital structure, objectives and targets have remained unchanged over the periods presented. At December 31, 2009, Cenovus is in compliance with all of the terms of its debt agreements.

17. COMPENSATION PLANS

Cenovus has in place a number of programs whereby employees may be granted the following share-based long-term incentives:

- **Tandem Share Appreciation Rights ("TSARs")**
  All options to purchase Common Shares issued under the Cenovus Employee Stock Option Plan, with the exception of a limited number of Cenovus Replacement Options, as described in Note 15, have an associated TSAR attached to them whereby the option holder has the right to receive a cash payment equal to the excess of the market price of Cenovus's Common Shares at the time of exercise over the exercise price of the right in lieu of exercising the option. The TSARs vest and expire under the same terms and conditions as the underlying option. Certain of the TSARs ("Performance TSARS") have an additional vesting requirement which is subject to the achievement of prescribed performance relative to key pre-determined measures. Performance TSARs that do not vest when eligible are forfeited.

- **Share Appreciation Rights ("SARs")**
  Share Appreciation Rights ("SARs") entitle the employee to receive a cash payment equal to the excess of the market price of Cenovus's Common Shares at the time of exercise over the exercise price of the right. SARs are exercisable at 30 percent of the number granted after one year, an additional 30 percent of the number granted after two years and are fully exercisable after three years and expire five years after the original grant date. Certain of the SARs ("Performance SARs") have an additional vesting requirement which is subject to the achievement of prescribed performance relative to key pre-determined measures. Performance SARs that do not vest when eligible are forfeited.

In accordance with the Arrangement with EnCana described in Note 2, each Cenovus employee holding an original EnCana long-term incentive unit of the same nature transferred their right to Cenovus in exchange for a Cenovus Replacement Unit and to EnCana for an EnCana Replacement Unit. The terms and conditions of the Cenovus and EnCana Replacement Units are similar to the terms and conditions of the original EnCana unit. The original exercise price of the EnCana unit was apportioned to the Cenovus and EnCana Replacement Units based on the one day weighted average trading price of Cenovus's common share price relative to that of EnCana's common share price on the TSX on December 2, 2009. Cenovus is required to reimburse EnCana in respect of cash payments made by EnCana to Cenovus employees for the EnCana Replacement Units they hold. No further EnCana Replacement Units will be granted to Cenovus employees.

All of these share-based long-term incentive programs have similar vesting provisions as the Cenovus stock option plan. Cenovus Units and Cenovus Replacement Units are measured against the Cenovus common share price and EnCana Replacement Units are measured against the EnCana common share price.

17. COMPENSATION PLANS (continued)

The Company has recorded a liability in the Consolidated Balance Sheet for EnCana Replacement Units held by the Company's employees using the fair value method. The fair value of each EnCana Replacement Unit granted is estimated using the Black-Scholes-Merton model with weighted average assumptions as follows:

	2009
Risk Free Rate	1.46%
Dividend Yield	2.45%
Volatility	26.17%
EnCana's Closing Common Share Price at December 31, 2009	C$34.11

A) Tandem Share Appreciation Rights

The following tables summarize the information related to the TSARs held by Cenovus employees:

As at December 31, 2009	Total Number of TSARs	Performance TSARs	Weighted Average Exercise Price (C$)
Replacement TSARs – November 30, 2009	16,431,032	8,053,074	27.51
Granted	67,500	-	25.66
Exercised – SARs	(12,755)	-	18.43
Exercised – Options	(31,050)	-	18.13
Outstanding, End of December 31, 2009	16,454,727	8,053,074	27.52
Exercisable, End of December 31, 2009	6,107,015	1,526,893	25.68

	Outstanding TSARs				Exercisable TSARs		
Range of Exercise Price (C$)	Total Number of TSARs	Performance TSARs	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price (C$)	Total Number of TSARs	Performance TSARs	Weighted Average Exercise Price (C$)
15.00 to 19.99	661,202	-	0.13	18.25	661,202	-	18.25
20.00 to 24.99	2,298,334	-	1.17	22.94	2,261,029	-	22.94
25.00 to 29.99	8,878,174	5,390,982	3.33	26.46	1,988,135	964,003	26.76
30.00 to 34.99	4,418,817	2,662,092	3.11	32.90	1,137,189	562,890	32.82
35.00 to 39.99	124,350	-	3.45	37.14	37,305	-	37.14
40.00 to 44.99	71,850	-	3.45	43.31	21,555	-	43.31
45.00 to 49.99	2,000	-	3.39	45.56	600	-	45.56
	16,454,727	8,053,074	2.84	27.52	6,107,015	1,526,893	25.68

For the year ended December 31, 2009, Cenovus recorded a reduction of compensation cost of $4 million related to TSARs.

B) Share Appreciation Rights

The following tables summarize the information related to the SARs held by Cenovus employees:

As at December 31, 2009	Total Number of SARs	Performance SARs	Weighted Average Exercise Price (C$)
Replacement SARs – November 30, 2009	44,657	23,932	29.38
Outstanding, December 31, 2009	44,657	23,932	29.38
Exercisable, December 31, 2009	4,557	2,532	32.96

17. COMPENSATION PLANS (continued)

	Outstanding SARs				Exercisable SARs		
Range of Exercise Price (C$)	Total Number of SARs	Performance SARs	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price (C$)	Total Number of SARs	Performance SARs	Weighted Average Exercise Price (C$)
25.00 to 29.99	25,925	11,950	4.13	26.79	-	-	-
30.00 to 34.99	18,732	11,982	3.12	32.96	4,557	2,532	32.96
	44,657	23,932	3.71	29.38	4,557	2,532	32.96

For the year ended December 31, 2009, Cenovus has not recorded any compensation costs related to the SARs.

C) EnCana Replacement Tandem Share Appreciation Rights

The following tables summarize information related to the EnCana Replacement TSARs held by Cenovus employees:

As at December 31, 2009	Total Number of TSARs	Performance TSARs	Weighted Average Exercise Price (C$)
Replacement TSARs – November 30, 2009	16,431,032	8,053,074	30.41
Exercised – SARs	(73,322)	(1,382)	20.67
Exercised – Options	(1,050)	-	17.96
Outstanding, End of December 31, 2009	16,356,660	8,051,692	30.46
Exercisable, End of December 31, 2009	6,076,448	1,525,511	28.43

	Outstanding EnCana Replacement TSARs				Exercisable EnCana Replacement TSARs		
Range of Exercise Price (C$)	Total Number of TSARs	Performance TSARs	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price (C$)	Total Number of TSARs	Performance TSARs	Weighted Average Exercise Price (C$)
15.00 to 19.99	2,960	-	0.08	19.08	2,960	-	19.08
20.00 to 24.99	652,542	-	0.18	20.27	646,942	-	20.25
25.00 to 29.99	10,800,826	5,389,600	2.89	28.39	4,035,672	962,621	27.17
30.00 to 34.99	411,720	-	2.41	32.29	264,565	-	32.09
35.00 to 39.99	4,341,562	2,662,092	3.12	36.47	1,082,194	562,890	36.46
40.00 to 44.99	74,200	-	3.49	42.28	22,260	-	42.28
45.00 to 49.99	70,850	-	3.45	47.94	21,255	-	47.94
50.00 to 54.99	2,000	-	3.39	50.39	600	-	50.39
	16,356,660	8,051,692	2.84	30.46	6,076,448	1,525,511	28.43

For the year ended December 31, 2009, the Company recorded compensation costs of $55 million related to the EnCana Replacement TSARs.

D) EnCana Replacement Share Appreciation Rights

The following tables summarize information related to the EnCana Replacement SARs held by Cenovus employees:

As at December 31, 2009	Total Number of SARs	Performance TSARs	Weighted Average Exercise Price (C$)
EnCana Replacement SARs – November 30, 2009	44,657	23,932	32.48
Outstanding, End of December 31, 2009	44,657	23,932	32.48
Exercisable, End of December 31, 2009	4,557	2,532	36.44

17. COMPENSATION PLANS (continued)

	Outstanding EnCana Replacement SARs				Exercisable EnCana Replacement SARs		
Range of Exercise Price (C$)	Total Number of SARs	Performance SARs	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price (C$)	Total Number of SARs	Performance SARs	Weighted Average Exercise Price (C$)
25.00 to 29.99	**22,925**	**11,950**	**4.09**	**29.23**	**-**	**-**	**-**
30.00 to 34.99	**3,000**	**-**	**4.45**	**32.55**	**-**	**-**	**-**
35.00 to 39.99	**18,732**	**11,982**	**3.12**	**36.44**	**4,557**	**2,532**	**36.44**
	44,657	**23,932**	**3.71**	**32.48**	**4,557**	**2,532**	**36.44**

For the year ended December 31, 2009, the Company has not recorded any compensation costs related to the EnCana Replacement SARs.

E) Deferred Share Units ("DSUs")

Cenovus has in place a program whereby directors, officers and employees are issued Deferred Share Units ("DSUs"), which are equivalent in value to a common share of the Company. Commencing in 2009, employees had the option to convert either 25 or 50 percent of their annual bonus award into DSUs. DSUs vest immediately, can be redeemed in accordance with terms of the agreement and expire on December 15 of the calendar year following the year of cessation of directorship or employment.

Pursuant to the terms of the Arrangement, EnCana DSUs credited to directors, officers and employees of Cenovus were exchanged for Cenovus DSUs. The fair value of the Cenovus DSUs credited to each holder was based on the fair market value of Cenovus Common Shares relative to EnCana common shares prior to the effective date of the Arrangement.

As at December 31, 2009	Outstanding DSUs
Outstanding, November 30, 2009	**762,011**
Units in Lieu of Dividends	**6,092**
Outstanding, End of December 31, 2009	**768,103**

For the year ended December 31, 2009, the Company has not recorded any compensation costs related to DSUs.

F) EnCana Pre-Arrangement Stock-Based Compensation Costs

Included in the financial information prior to the Arrangement, the Company recorded compensation costs for the following EnCana plans:

(US$ millions)	**2009**	2008	2007
EnCana TSARs	**4**	(9)	83
EnCana SARs	**1**	-	-
EnCana DSUs	**2**	1	7
EnCana PSUs	**-**	-	16

17. COMPENSATION PLANS (continued)

G) Pensions and Other Post-Employment Benefits

The Company sponsors defined benefit and defined contribution plans, providing pension and other post-employment benefits ("OPEB") to its employees.

The Company is required to file an actuarial valuation of its pension plans with the provincial regulator at least every three years. An actuarial valuation as at November 30, 2009 will be filed during the first half of 2010.

Pursuant to the Arrangement, the liabilities and assets related to Cenovus employees, as determined by actuarial consultants, transferred to the Cenovus Pension Plans effective November 30, 2009. The 2009 Pension and OPEB amounts reflect activity since the effective date.

The 2008 Pension and OPEB amounts represent Cenovus's proportionate share of EnCana's pension plans related to active employees. The going concern liabilities and assets related to retirees prior to the Arrangement remained with EnCana.

Information related to defined benefit pension and other post-employment benefit plans, based on actuarial estimations as at December 31, 2009 is as follows:

Accrued Benefit Obligation

	Pension Benefits		OPEB	
As at December 31, (US$ millions)	**2009**	2008	**2009**	2008
Accrued Benefit Obligation Pursuant to the Arrangement	**50**		**11**	
Current service cost	**-**		**-**	
Interest cost	**-**		**-**	
Benefits paid	**-**		**-**	
Actuarial (gain) loss	**3**		**-**	
Foreign exchange (gain) loss	**1**		**-**	
Accrued Benefit Obligation, End of Year	**54**	36	**11**	7

Plan Assets

	Pension Benefits		OPEB	
As at December 31, (US$ millions)	**2009**	2008	**2009**	2008
Fair Value of Plan Assets Pursuant to the Arrangement	**50**		**-**	
Actuarial gain (loss) on return of plan assets	**1**		**-**	
Employer contributions	**-**		**-**	
Benefits paid	**-**		**-**	
Foreign exchange (gain) loss	**1**		**-**	
Fair Value of Plan Assets, End of Year	**52**	32	**-**	-

Accrued Benefit Asset (Liability)

	Pension Benefits		OPEB	
As at December 31, (US$ millions)	**2009**	2008	**2009**	2008
Funded Status–Plan Assets (less) than Benefit Obligation	**(2)**		**(11)**	
Amounts Not Recognized:				
Unamortized net actuarial (gain) loss	**14**		**(1)**	
Unamortized past service cost	**-**		**1**	
Accrued Benefit Asset (Liability)	**12**	6	**(11)**	(6)

17. COMPENSATION PLANS (continued)

	Pension Benefits		OPEB	
As at December 31, (US$ millions)	**2009**	2008	**2009**	2008
Prepaid Benefit Cost	**12**		**-**	
Accrued Benefit Cost	**-**		**(11)**	
Net Amount Recognized	**12**	6	**(11)**	(6)

The Company's OPEB plans are funded on an as required basis.

The weighted average assumptions used to determine benefit obligations are as follows:

As at December 31,	**2009**	2008	**2009**	2008
Discount Rate	**6.00%**	6.25%	**6.00%**	6.25%
Rate of Compensation Increase	**4.05%**	4.16%	**5.77%**	6.00%

The average remaining service period of the active employees covered by the defined benefit pension plan is 4 years. The average remaining service period of the active employees covered by the OPEB plan is 11 years.

Assumed health care cost trend rates are as follows:

As at December 31,	**2009**	2008
Health Care Cost Trend Rate for Next Year	**10.00%**	9.50%
Rate that the Trend Rate Gradually Trends To	**5.00%**	5.00%
Year that the Trend Rate Reaches the Rate which it is Expected to Remain At	**2020**	2017

Assumed health care cost trend rates have an effect on the amounts reported for the OPEB plans. A one percentage point change in assumed health care cost trend rates would have the following effects:

(US$ millions)	One Percentage Point Increase	One Percentage Point Decrease
Effect on Post-Retirement Benefit Obligation	1	(1)

The Company's pension plan asset allocations are as follows:

	Normal	Range	**As at December 31, 2009**	As at December 31, 2008	Rate of Return
Domestic Equity	35	25-45	**39**	34	
Foreign Equity	30	20-40	**23**	25	
Bonds	30	20-40	**29**	33	
Real Estate and Other	5	0-20	**9**	8	
Total	100		**100**	100	6.75%

The expected rate of return on plan assets is based on historical and projected rates of return for each asset class in the plan investment portfolio. The objective of the asset allocation policy is to manage the funded status of the plan at an appropriate level of risk, giving consideration to the security of the assets and the potential volatility of market returns and the resulting effect on both contribution requirements and pension expense. The long-term return is expected to achieve or exceed the return from a composite benchmark comprised of passive investments in appropriate market indices. The Supplemental Pension Plan is funded through a retirement compensation arrangement and is subject to the applicable Canada Revenue Agency regulations.

17. COMPENSATION PLANS (continued)

The asset allocation structure is subject to diversification requirements and constraints which reduce risk by limiting exposure to individual equity investment, credit rating categories and foreign currency exposure.

The Company's contributions to the pension plans are subject to the results of the actuarial valuation and direction by the Human Resources and Compensation Committee of the Board.

Estimated future payment of pension and other benefits are as follows:

(US$ millions)	Pension Benefits	OPEB
2010	1	-
2011	1	-
2012	2	-
2013	2	1
2014	3	1
2015 – 2019	20	6
Total	29	8

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Cenovus's consolidated financial assets and liabilities are comprised of cash and cash equivalents, accounts receivable and accrued revenues, accounts payable and accrued liabilities, the Partnership Contribution Receivable and Payable, risk management assets and liabilities, and long-term debt. Risk management assets and liabilities arise from the use of derivative financial instruments. Fair values of financial assets and liabilities, summarized information related to risk management positions, and discussion of risks associated with financial assets and liabilities are presented as follows. The information contained within Note 18 is based on carve-out information for the periods prior to December 1, 2009.

A) Fair Value of Financial Assets and Liabilities

The fair values of cash and cash equivalents, accounts receivable and accrued revenues, and accounts payable and accrued liabilities approximate their carrying amount due to the short-term maturity of those instruments.

The fair values of the Partnership Contribution Receivable and Partnership Contribution Payable approximate their carrying amount due to the specific non-tradeable nature of these instruments in relation to the creation of the integrated oil business venture.

Risk management assets and liabilities are recorded at their estimated fair value based on mark-to-market accounting, using quoted market prices or, in their absence, third-party market indications and forecasts.

Long-term debt is carried at amortized cost. The estimated fair values of long-term borrowings have been determined based on market information.

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

The fair value of financial assets and liabilities, including current portions thereof were as follows:

As at December 31, (US$ millions)	2009		2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Held-for-trading:				
Cash and cash equivalents	**148**	**148**	153	153
Risk management assets	**59**	**59**	719	719
Loans and Receivables:				
Accounts receivable and accrued revenues	**874**	**874**	598	598
Partnership Contribution Receivable	**2,834**	**2,834**	3,147	3,147
Financial Liabilities				
Held-for-trading:				
Risk management liabilities	**71**	**71**	40	40
Other Financial Liabilities:				
Accounts payable and accrued liabilities	**1,444**	**1,444**	1,114	1,114
Long-term debt	**3,493**	**3,788**	3,036	3,036
Partnership Contribution Payable	**2,857**	**2,857**	3,163	3,163

B) Risk Management Assets and Liabilities

Under the terms of the Arrangement with EnCana, the risk management positions at November 30, 2009 were allocated to Cenovus based upon Cenovus's proportion of the related volumes covered by the contracts. To effect the allocation, Cenovus entered into a contract with EnCana with the same terms and conditions as between EnCana and the third parties to the existing contracts. All positions entered into after the Arrangement have been negotiated between Cenovus and third parties.

Net Risk Management Position

As at December 31, (US$ millions)	2009	2008
Risk Management		
Current asset	**58**	681
Long-term asset	**1**	38
	59	719
Risk Management		
Current liability	**67**	40
Long-term liability	**4**	-
	71	40
Net Risk Management Asset (Liability)	**(12)**	679

Of the $12 million net risk management liability balance at December 31, 2009, a liability of $14 million relates to the contract with EnCana.

Summary of Unrealized Risk Management Positions

As at December 31, (US$ millions)	2009			2008		
	Risk Management			Risk Management		
	Asset	Liability	Net	Asset	Liability	Net
Commodity Prices						
Natural Gas	**51**	**-**	**51**	618	-	618
Crude Oil	**8**	**63**	**(55)**	92	40	52
Power	**-**	**8**	**(8)**	9	-	9
Total Fair Value	**59**	**71**	**(12)**	719	40	679

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Net Fair Value Methodologies Used to Calculate Unrealized Risk Management Positions

As at December 31, (US$ millions)	**2009**	2008
Prices actively quoted	**7**	521
Prices sourced from observable data or market corroboration	**(19)**	158
Total Fair Value	**(12)**	679

Prices actively quoted refers to the fair value of contracts valued using quoted prices in an active market. Prices sourced from observable data or market corroboration refers to the fair value of contracts valued in part using active quotes and in part using observable, market-corroborated data.

Net Fair Value of Commodity Price Positions at December 31, 2009

(US$ millions)	Notional Volumes	Term	Average Price	**Fair Value**
Crude Oil Contracts				
Fixed Price Contracts				
WTI NYMEX Fixed Price	24,600 bbls/d	2010	76.99 US$/bbl	**(47)**
Other Financial Positions *				**(8)**
Crude Oil Fair Value Position				**(55)**
Natural Gas Contracts				
Fixed Price Contracts				
NYMEX Fixed Price	437 MMcf/d	2010	6.08 US$/Mcf	**52**
NYMEX Fixed Price	56 MMcf/d	2011	6.75 US$/Mcf	**10**
Basis Contracts**				
Canada	28 MMcf/d	2010		**(2)**
Canada		2011-2013		**(9)**
Natural Gas Fair Value Position				**51**
Power Purchase Contracts				
Power Fair Value Position				**(8)**

* Other financial positions are part of ongoing operations to market the Company's production.
**Cenovus has entered into swaps to protect against widening natural gas price differentials between production areas in Canada and various sales points. These basis swaps are priced using both fixed prices and basis prices determined as a percentage of NYMEX.

Earnings Impact of Realized and Unrealized Gains (Losses) on Risk Management Positions

	Realized Gain (Loss)		
For the years ended December 31, (US$ millions)	**2009**	2008	2007
Revenues, Net of Royalties	**1,005**	(323)	136
Operating Expenses and Other	**(32)**	24	3
Gain (Loss) on Risk Management	**973**	(299)	139

	Unrealized Gain (Loss)		
For the years ended December 31, (US$ millions)	**2009**	2008	2007
Revenues, Net of Royalties	**(639)**	727	(349)
Operating Expenses and Other	**(28)**	7	1
Gain (Loss) on Risk Management	**(667)**	734	(348)

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Reconciliation of Unrealized Risk Management Positions

For the years ended December 31, (US$ millions)	2009		2008	2007
	Fair Value	**Total Unrealized Gain (Loss)**	Total Unrealized Gain (Loss)	Total Unrealized Gain (Loss)
Fair Value of Contracts, Beginning of Year	**653**			
Change in Fair Value of Contracts in Place at Beginning of Year and Contracts Entered into During the Year	**306**	**306**	435	(215)
Other	**-**	**-**	-	6
Foreign Exchange Gain (Loss) on Canadian Dollar Contracts	**2**	**-**	-	-
Fair Value of Contracts Realized During the Year	**(973)**	**(973)**	299	(139)
Fair Value of Contracts, End of Year	**(12)**	**(667)**	734	(348)

Commodity Price Sensitivities

The following table summarizes the sensitivity of the fair value of Cenovus's risk management positions to fluctuations in commodity prices, with all other variables held constant. When assessing the potential impact of these commodity price changes, Management believes 10 percent volatility is a reasonable measure. Fluctuations in commodity prices could have resulted in unrealized gains (losses) impacting net earnings as at December 31, 2009 as follows:

(US$ millions)	**10% Price Increase**	**10% Price Decrease**
Natural gas price	**(102)**	**102**
Crude oil price	**(82)**	**82**
Power price	**5**	**(5)**

C) Risks Associated with Financial Assets and Liabilities

Commodity Price Risk

Commodity price risk arises from the effect that fluctuations of future commodity prices may have on the fair value or future cash flows of financial assets and liabilities. To partially mitigate exposure to commodity price risk, the Company has entered into various financial derivative instruments. The use of these derivative instruments is governed under formal policies and is subject to limits established by the Board of Directors. The Company's policy is not to use derivative financial instruments for speculative purposes.

Crude Oil – The Company has partially mitigated its exposure to the commodity price risk on its crude oil sales and condensate supply with fixed price swaps.

Natural Gas – To partially mitigate the natural gas commodity price risk, the Company has entered into swaps, which fix the NYMEX prices. To help protect against widening natural gas price differentials in various production areas, Cenovus has entered into swaps to manage the price differentials between these production areas and various sales points.

Power – The Company has in place two Canadian dollar denominated derivative contracts, which commenced January 1, 2007 for a period of 11 years, to manage its electricity consumption costs.

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Credit Risk

Credit risk arises from the potential that the Company may incur a loss if a counterparty to a financial instrument fails to meet its obligation in accordance with agreed terms. This credit risk exposure is mitigated through the use of Board-approved credit policies governing the Company's credit portfolio and with credit practices that limit transactions according to counterparties' credit quality. All foreign currency agreements are with major financial institutions in Canada and the United States or with counterparties having investment grade credit ratings. A substantial portion of Cenovus's accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risks. As at December 31, 2009, over 98 percent (2008–95 percent) of Cenovus's accounts receivable and financial derivative credit exposures are with investment grade counterparties.

At December 31, 2009, Cenovus had two counterparties (2008–two counterparties) whose net settlement position individually account for more than 15 percent of the fair value of the outstanding in-the-money net financial and physical contracts by counterparty. The maximum credit risk exposure associated with accounts receivable and accrued revenues, risk management assets and the Partnership Contribution Receivable is the total carrying value. The current concentration of this credit risk resides with EnCana and a AAA rated counterparty. Cenovus's exposure to EnCana is expected to reduce substantially by the end of the first quarter 2010 as Cenovus begins to market its own physical gas to the market. Cenovus's exposure to its counterparties is acceptable and within Credit Policy tolerances.

Liquidity Risk

Liquidity risk is the risk that Cenovus will not be able to meet all of its financial obligations as they become due. Liquidity risk also includes the risk of not being able to liquidate assets in a timely manner at a reasonable price. Cenovus manages its liquidity through the active management of cash and debt. As disclosed in Note 16, Cenovus targets a Debt to Capitalization ratio between 30 and 40 percent and a Debt to Adjusted EBITDA of between 1.0 to 2.0 times to manage the Company's overall debt position.

Cenovus manages its liquidity risk by ensuring that it has access to multiple sources of capital including: cash and cash equivalents, cash from operating activities and undrawn credit facilities. At December 31, 2009, Cenovus had approximately $2.3 billion in unused credit capacity available on its committed bank credit facility.

It is Cenovus's intention to maintain investment grade credit ratings on its senior unsecured debt. DBRS Limited ("DBRS") has assigned a rating of A (low) with a "Stable" outlook, Standard and Poor's Corporation has assigned a rating of BBB+ with a "Stable" outlook and Moody's Investors Service Inc. has assigned a rating of Baa2 with a "Stable" outlook.

Cash outflows relating to financial liabilities are outlined in the table below:

(US$ millions)	Less than 1 Year	1 - 3 Years	4 - 5 Years	Thereafter	**Total**
Accounts Payable and Accrued Liabilities	1,444	-	-	-	**1,444**
Risk Management Liabilities	67	4	-	-	**71**
Long-Term Debt*	227	468	1,209	5,433	**7,337**
Partnership Contribution Payable*	489	978	978	1,099	**3,544**

* Principal and interest, including current portion.

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Included in Cenovus's long-term debt obligations of $3,493 million at December 31, 2009, are $56 million in principal obligations related to prime rate and LIBOR based loans. These amounts are fully supported by the Company's revolving syndicated credit facility, which have no repayment requirements within the next year. All outstanding amounts related to the prime rate and LIBOR based loans were drawn on the 3-year tranche of the revolving syndicated credit facility. Based on the current maturity dates of the 3-year tranche, these amounts are included in cash outflows for the period disclosed as "1-3 Years." Further information on Long-Term Debt is included in Note 13.

Foreign Exchange Risk

Foreign exchange risk arises from changes in foreign exchange rates that may affect the fair value or future cash flows of Cenovus's financial assets or liabilities. As Cenovus operates in North America, fluctuations in the exchange rate between the U.S./Canadian dollar can have a significant effect on reported results. Cenovus's functional currency is Canadian dollars; however, the Company reports its results in U.S. dollars, unless otherwise indicated. As the effects of foreign exchange fluctuations are embedded in the Company's results, the total effect of foreign exchange fluctuations is not separately identifiable.

As disclosed in Note 7, Cenovus's foreign exchange (gain) loss primarily includes unrealized foreign exchange gains and losses on the translation of the U.S. dollar debt issued from Canada and the translation of the U.S. dollar Partnership Contribution Receivable issued from Canada. At December 31, 2009, Cenovus had $3,525 million in U.S. dollar debt issued from Canada ($1,804 million at December 31, 2008) and $2,834 million related to the U.S. dollar Partnership Contribution Receivable ($3,147 million at December 31, 2008). A $0.01 change in the U.S. to Canadian dollar exchange rate would have resulted in a $7 million change in foreign exchange (gain) loss at December 31, 2009 (2008-$11 million).

Interest Rate Risk

Interest rate risk arises from changes in market interest rates that may affect the earnings, cash flows and valuations. Cenovus has the flexibility to partially mitigate its exposure to interest rate changes by maintaining a mix of both fixed and floating rate debt.

At December 31, 2009, the majority of the Company's debt is fixed-rate debt and as a result, the increase or decrease in net earnings for each one percent change in interest rates on floating rate debt amounts to nil (December 31, 2008–$4 million; 2007–$5 million).

19. SUPPLEMENTARY INFORMATION

A) Per Share Amounts

For the years ended December 31, (millions)	**2009**	2008	2007
Weighted Average Common Shares Outstanding – Basic	**751.0**	750.1	756.8
Effect of Stock Options and Other Dilutive Securities	**0.4**	1.7	7.8
Weighted Average Common Shares Outstanding – Diluted	**751.4**	751.8	764.6

Since Cenovus's shares were issued pursuant to the Arrangement, the per share amounts disclosed above are based on EnCana's common shares.

19. SUPPLEMENTARY INFORMATION (continued)

B) Supplementary Cash Flow Information

For the years ended December 31, (US$ millions)	**2009**	2008	2007
Interest Paid	**376**	395	408
Income Taxes Paid	**1,145**	508	536

Income taxes paid in 2009 includes amounts paid to EnCana as a result of the dissolution of a partnership as part of the Arrangement.

20. COMMITMENTS AND CONTINGENCIES

Commitments

As part of normal operations, the Company has committed to certain amounts over the next five years and thereafter as follows:

(US$ millions)	2010	2011	2012	2013	2014	Thereafter	Total
Operating Leases (Building Leases)	26	27	34	72	76	1,575	1,810
Pipeline Transportation	101	95	68	141	141	923	1,469
Purchases of Goods and Services	98	9	4	3	-	-	114
Capital Commitments	105	85	33	-	-	-	223
Product Purchases	26	23	22	22	22	28	143
Total Payments	356	239	161	238	239	2,526	3,759
Product Sales	46	48	52	53	55	119	373

In addition to the above, Cenovus's share of commitments related to its risk management program are disclosed in Note 18.

Contingencies

Legal Proceedings

Cenovus is involved in various legal claims associated with the normal course of operations. Cenovus believes it has made adequate provisions for such legal claims.

20. COMMITMENTS AND CONTINGENCIES (continued)

Asset Retirement

Cenovus is responsible for the retirement of long-lived assets related to its oil and gas properties, refining facilities and Midstream facilities at the end of their useful lives. Cenovus has recognized a liability of $1,096 million based on current legislation and estimated costs. Actual costs may differ from those estimated due to changes in legislation and changes in costs.

Income Tax Matters

The tax interpretations, regulations and legislation in the various jurisdictions that Cenovus operates in are continually changing. As a result, there are usually some tax matters under review. Management believes that the provision for taxes is adequate.

21. UNITED STATES ACCOUNTING PRINCIPLES AND REPORTING

The Cenovus Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in Canada ("Canadian GAAP") which, in most respects, conform to accounting principles generally accepted in the United States ("U.S. GAAP"). The significant differences between Canadian GAAP and U.S. GAAP are described in this note. The most notable differences are:

- full cost accounting;
- pensions and other post-employment benefits;
- liability-based stock compensation plans;
- income taxes;
- other comprehensive income;
- joint venture accounting; and
- inventories.

RECONCILIATION OF NET EARNINGS UNDER CANADIAN GAAP TO U.S. GAAP

For the years ended December 31, (US$ millions)	Note 21	**2009**	2008	2007
Net Earnings–Canadian GAAP		**648**	2,368	1,404
Increase (Decrease) in Net Earnings Under U.S. GAAP:				
Revenues, net of royalties		**-**	-	(5)
Expenses				
Operating	*C ii)*	**4**	(12)	1
Depreciation, depletion and amortization	*A, C ii)*	**209**	29	148
General and administrative	*C ii)*	**8**	(14)	1
Stock-based compensation–options		**-**	1	(3)
Income tax expense	D	**(184)**	(32)	(87)
Net Earnings–U.S. GAAP		**685**	2,340	1,459

CONSOLIDATED STATEMENT OF EARNINGS AND COMPREHENSIVE INCOME – U.S. GAAP

For the years ended December 31, (US$ millions)	Note 21	**2009**	2008	2007
Revenues, Net of Royalties		**10,140**	16,559	13,401
Expenses				
Production and mineral taxes		**38**	75	63
Transportation and selling		**672**	963	756
Operating	*C ii)*	**1,150**	1,235	1,113
Purchased product		**5,250**	9,710	7,476
Depreciation, depletion and amortization	*A, C ii)*	**1,134**	1,289	1,278
General and Administrative	*C ii)*	**180**	181	144
Interest, net		**218**	218	187
Accretion of asset retirement obligation		**39**	39	28
Foreign exchange (gain) loss, net		**290**	(250)	380
Stock-based compensation–options		**-**	(1)	3
Other (gain) loss, net		**(2)**	3	4
Earnings Before Income Tax		**1,171**	3,097	1,969
Income tax expense	D	**486**	757	510
Net Earnings–U.S. GAAP		**685**	2,340	1,459
Other Comprehensive Income, Net of Tax				
Foreign Currency Translation Adjustment		**1,872**	(2,075)	1,133
Compensation Plans		**31**	(8)	-
Comprehensive Income		**2,588**	257	2,592

CONDENSED CONSOLIDATED BALANCE SHEET – U.S. GAAP

		2009		2008	
As at December 31, (US$ millions)	Note 21	**As Reported**	**U.S. GAAP**	As Reported	U.S. GAAP
Assets					
Current Assets	*G*	**2,284**	**2,284**	2,248	2,248
Property, Plant and Equipment	*A, C ii)*				
(includes unproved properties and major development projects of $1,921 and $715 as of December 31, 2009 and 2008, respectively)		**26,255**	**26,237**	21,175	21,182
Accumulated Depreciation, Depletion and Amortization		**(11,718)**	**(12,523)**	(8,915)	(9,798)
Property, Plant and Equipment, net		**14,537**	**13,714**	12,260	11,384
(Full Cost Method for Oil and Gas Activities)					
Other Assets	*C i)*	**131**	**138**	150	133
Partnership Contribution Receivable		**2,504**	**2,504**	2,834	2,834
Risk Management		**1**	**1**	38	38
Goodwill		**1,095**	**1,095**	936	936
		20,552	**19,736**	18,466	17,573
Liabilities and Net Investment					
Current Liabilities	*C i), C ii), D*	**1,836**	**1,937**	1,798	1,918
Long-Term Debt		**3,493**	**3,493**	2,952	2,952
Other Liabilities	*C i), C ii)*	**54**	**55**	52	65
Partnership Contribution Payable		**2,532**	**2,532**	2,857	2,857
Risk Management		**4**	**4**	-	-
Asset Retirement Obligation		**1,096**	**1,096**	648	648
Deferred Income Taxes	D	**2,357**	**2,187**	2,411	2,093
		11,372	**11,304**	10,718	10,533
Shareholders' Equity	*E*	**9,180**	**8,432**	7,748	7,040
		20,552	**19,736**	18,466	17,573

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS – U.S. GAAP

For the years ended December 31, (US$ millions)	2009	2008	2007
Operating Activities			
Net earnings	**685**	2,340	1,459
Depreciation, depletion and amortization	**1,134**	1,289	1,278
Deferred income taxes	**(371)**	416	(168)
Unrealized (gain) loss on risk management	**667**	(734)	353
Unrealized foreign exchange (gain) loss	**313**	(259)	383
Accretion of asset retirement obligation	**39**	39	28
Other (income) loss, net	**1**	(2)	124
Net change in other assets and liabilities	**(23)**	(89)	(48)
Net change in non-cash working capital	**1,051**	(316)	(417)
Cash From Operating Activities	**3,496**	2,684	2,992
Cash (Used in) Investing Activities	**(1,780)**	(1,964)	(1,533)
Net Cash Provided before Financing Activities	**1,716**	720	1,459
Cash From (Used in) Financing Activities	**(1,730)**	(849)	(1,270)

Notes:

A) Full Cost Accounting

Under U.S. GAAP, a ceiling test is applied to ensure the unamortized capitalized costs in each cost centre do not exceed the sum, net of applicable income taxes, of the present value, discounted at 10 percent, of the estimated future net revenues calculated on the basis of estimated value of future production from proved reserves using oil and gas prices at the balance sheet date, less related unescalated estimated future development and production costs, plus unimpaired unproved property costs. For 2009, depletion charges under U.S. GAAP were also calculated by reference to proved reserves estimated using an average price for the prior 12-month period. For 2008 and 2007, depletion charges under U.S. GAAP were calculated by reference to proved reserves estimated using oil and gas prices at the balance sheet date.

Under Canadian GAAP, a similar ceiling test calculation is performed with the exception that cash flows from proved reserves are undiscounted and utilize forecast pricing and future development and production costs to determine whether impairment exists. The impairment amount is measured using the fair value of proved and probable reserves. Depletion charges under Canadian GAAP are also calculated by reference to proved reserves estimated using estimated future prices and costs.

At December 31, 2008, Cenovus's capitalized costs of oil and gas properties in Canada exceeded the full cost ceiling resulting in a non-cash U.S. GAAP write-down of $60 million charged to DD&A (2007–nil). Additional depletion was also recorded in 2006, and certain prior years, as a result of the ceiling test difference between Canadian GAAP and U.S. GAAP. As a result, the depletion base of unamortized capitalized costs is less for U.S. GAAP purposes.

The U.S. GAAP adjustment for the difference in depletion calculations results in an impact to DD&A charges and foreign currency translation adjustment of $207.8 million decrease and $13.9 million increase respectively (2008–$92.4 million decrease and $8.5 million decrease; 2007–$147.8 million decrease and $8.9 million increase).

21. UNITED STATES ACCOUNTING PRINCIPLES AND REPORTING (continued)

B) Property, Plant and Equipment Allocation

Net property, plant and equipment related to Canadian upstream oil and gas activities have been allocated for U.S. GAAP carve-out purposes using the same methodology as the carve-out allocation for Canadian GAAP purposes.

The balances related to Canadian upstream operations have been allocated between Cenovus and EnCana in accordance with the CICA Handbook Accounting Guideline ACG-16, based on the ratio of future net revenue, discounted at 10 percent, of the properties carved out to the discounted future net revenue of all proved properties in Canada using the reserve reports dated December 31, 2008 and December 31, 2007. Future net revenue is the estimated net amount to be received with respect to development and production of crude oil and natural gas reserves, the value of which has been determined by independent reserve evaluators.

C) Compensation Plans

i) Pensions and Other Post-Employment Benefits

Under U.S. GAAP, ASC 715-30, *"Compensation – Retirement Benefits"*, requires Cenovus to recognize the over-funded or under-funded status of defined benefit and post-employment plans on the balance sheet as an asset or liability and to recognize changes in the funded status through Other Comprehensive Income. Canadian GAAP does not require Cenovus to recognize the funded status of these plans on its balance sheet.

ii) Liability-Based Stock Compensation Plans

Under Canadian GAAP, obligations for liability-based stock compensation plans are recorded using the intrinsic-value method of accounting. For U.S. GAAP purposes, Cenovus adopted ASC 718, *"Compensation – Stock Compensation"* for the year ended December 31, 2006 using the modified-prospective approach. Under ASC 718, liability-based stock compensation plans, including tandem share appreciation rights, performance tandem share appreciation rights, share appreciation rights, performance share appreciation rights and deferred share units, are required to be re-measured at fair value at each reporting period up until the settlement date.

To the extent compensation cost relates to employees directly involved in crude oil and natural gas development activities, certain amounts are capitalized to property, plant and equipment. Amounts not capitalized are recognized as administrative expenses or operating expenses. The current period adjustments have the following impact:

- Net property, plant and equipment decreased by $24.2 million (2008–$14.6 million increase)
- Current liabilities decreased by $39.5 million (2008–$41.4 million increase)
- Other liabilities increased by $1.6 million (2008–$0.2 million decrease)
- Other comprehensive income–nil (2008–$3.0 million increase)
- Operating expenses decreased by $3.8 million (2008–$11.6 million increase)
- Administrative expenses decreased by $7.9 million (2008–$14.5 million increase)
- Depreciation, depletion and amortization expenses decreased by $1.6 million (2008–$3.8 million increase)

21. UNITED STATES ACCOUNTING PRINCIPLES AND REPORTING (continued)

D) Income Taxes

U.S. GAAP uses enacted tax rates and legislative changes to calculate current and deferred income taxes, whereas Canadian GAAP uses substantively enacted tax rates and legislative changes. In 2007, a Canadian tax legislative change was substantively enacted for Canadian GAAP; however, this tax legislative change was not considered enacted for U.S. GAAP by December 31, 2007 and 2008. This tax legislative change is still not considered enacted. Accordingly, there was no difference in 2009 (2008–nil; 2007–increase to income tax expense of $76 million) for U.S. GAAP.

The remaining differences resulted from the deferred income tax adjustments included in the Reconciliation of Net Earnings under Canadian GAAP to U.S. GAAP and the Condensed Consolidated Balance Sheet include the effect of such rate differences, if any, as well as the tax effect of the other reconciling items noted.

In 2009, Cenovus incurred losses in one of its subsidiary company which were recognized and included in calculating future income taxes for Canadian GAAP purposes on the basis that the tax legislative changes noted above were substantially enacted. For U.S. GAAP, these losses can not be recognized as the tax legislative changes have not been enacted by December 31, 2009. The income tax expense has been increased by $124.0 million (2008 and 2007–nil) to record the difference between Canadian and U.S. GAAP.

The following table provides a reconciliation of the statutory rate to the actual tax rate:

For the years Ended December 31, (US$ millions)	**2009**	2008	2007
Net Earnings Before Income Tax–U.S. GAAP	**1,171**	3,097	1,969
Canadian Statutory Rate	**29.2%**	29.7%	32.3%
Expected Income Tax	**342**	919	636
Effect on Taxes Resulting from:			
Statutory and other rate differences	**(9)**	(79)	17
Effect of tax rate changes	**-**	-	(147)
Non-taxable downstream partnership income	**6**	6	(70)
International financing	**(118)**	(127)	-
Foreign exchange (gains) losses not included in net earnings	**67**	11	-
Non-taxable capital (gains) losses	**11**	(50)	45
Unrecognized non-capital losses	**124**	-	-
Other	**63**	77	29
Income Tax–U.S. GAAP	**486**	757	510
Effective Tax Rate	**41.5%**	24.4%	25.9%

The net deferred income tax liability is comprised of:

As at December 31, (US$ millions)	**2009**	2008
Deferred Tax Liabilities		
Property, plant and equipment in excess of tax values	**2,224**	1,737
Timing of partnership items	**9**	470
Risk management	**16**	-
Other	**75**	185
Deferred Tax Assets		
Non-capital and net operating losses carried forward	**(106)**	(19)
Other	**(31)**	(280)
Net Deferred Income Tax Liability	**2,187**	2,093

21. UNITED STATES ACCOUNTING PRINCIPLES AND REPORTING (continued)

E) Other Comprehensive Income

ASC 715-30 requires a change in the funded status of defined benefit and post-employment plans to be recognized on the balance sheet and changes in the funded status through comprehensive income. In 2009, a gain of $30.9 million, net of tax was recognized in other comprehensive income (2008–loss of $7.5 million) as noted in D i). On adoption of ASC 715-30, as required, the transitional amount of $12 million, net of tax was booked directly to Accumulated Other Comprehensive Income.

The foreign currency translation adjustment includes the effect of the accumulated U.S. GAAP differences.

F) Joint Venture with ConocoPhillips

Under Canadian GAAP, the Integrated Oil operations that are jointly controlled are proportionately consolidated. U.S. GAAP requires the Downstream Refining operations included in the Integrated Oil Division be accounted for using the equity method. However, under an accommodation of the U.S. Securities and Exchange Commission, accounting for jointly controlled investments does not require reconciliation from Canadian to U.S. GAAP if the joint venture is jointly controlled by all parties having an equity interest in the entity, which is the case for the Downstream Refining operations. Equity accounting for the Downstream Refining operations would have no impact on Cenovus's net earnings or retained earnings. As required, the following disclosures are provided for the Downstream Refining operations of the joint venture.

Consolidated Statement of Earnings		
For the year ended December 31, (US$ millions)	**2009**	2008
Operating Cash Flow (See Note 1)	**310**	(241)
Depreciation, depletion and amortization	**(192)**	(188)
Other	**(11)**	19
Net Earnings (Loss)	**107**	(410)

Consolidated Balance Sheet		
As at December 31, (US$ millions)	**2009**	2008
Current Assets	**771**	321
Long-term Assets	**4,872**	4,157
Current Liabilities	**489**	422
Long-term Liabilities	**391**	35

Consolidated Statement of Cash Flows		
For the year ended December 31, (US$ millions)	**2009**	2008
Cash From/(Used in) Operating Activities	**(54)**	118
Cash (Used in) Investing Activities	**(905)**	(519)

21. UNITED STATES ACCOUNTING PRINCIPLES AND REPORTING (continued)

G) Inventories

For Canadian GAAP purposes, for the year ended December 31, 2009, the Company recorded an increase in inventory values resulting from a subsequent improvement in commodity prices following a write-down of product inventory. Under U.S. GAAP, this increase in inventory value is not permitted. Since the majority of the impaired inventory was sold during the year, the impact to net earnings for this reconciling difference was immaterial.

H) Recent Accounting Pronouncements

During the year, Cenovus adopted the following pronouncements for U.S. GAAP purposes:

- ASC 805-10, *"Business Combinations,"* which is a revised standard and requires assets and liabilities acquired in a business combination, contingent consideration, and certain acquired contingencies to be measured at their fair values as of the date of acquisition. Acquisition-related and restructuring costs are recognized separately from the business combination. This standard was adopted prospectively as of January 1, 2009. The adoption of this standard had no material impact on Cenovus's U.S. GAAP accounting treatment of business combinations entered into after January 1, 2009.
- ASC 810-10 *"Consolidation,"* which requires a non-controlling interest in a subsidiary to be classified as a separate component of equity. The standard also changes the way the U.S. GAAP consolidated statement of earnings is presented by requiring net earnings to include the amounts attributable to both the parent and the non-controlling interest and to disclose these respective amounts. This standard was adopted as of January 1, 2009. The adoption of this standard had no material impact on Cenovus's Consolidated Financial Statements.
- In June 2009, the U.S. Financial Accounting Standards Board ("FASB") issued the Accounting Standards Update (ASU) 2009-01, *"The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles."* This update establishes the FASB Accounting Standards Codification ("Codification") as the source of authoritative U.S. generally accepted accounting principles effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Codification did not change existing requirements under U.S. GAAP and as a result, did not impact Cenovus's Consolidated Financial Statements.
- The U.S. Securities Exchange Commission's project, "*Modernization of Oil and Gas Reporting*" and FASB's Accounting Standards Update 2010-03 "*Oil and Gas Reserve Estimation and Disclosures,"* which include provisions that permit the use of new technologies to establish proved reserves if those technologies have been demonstrated empirically to lead to reliable conclusions about reserves volumes. Additionally, oil and gas reserves are now reported using an average price based upon the prior 12-month period rather than year-end prices. The new rules and standards were adopted prospectively by Cenovus on December 31, 2009 and affected the reserve estimate used in the calculation of the ceiling test for U.S. GAAP. There was no effect on the ceiling test for the change in rules and standards noted above for 2009. In addition, the FASB standard affected the amounts reported in the Supplementary Oil and Gas Information Topic 932 as discussed in that supplementary information.