



# Cenovus Energy Inc.

Interim Consolidated Financial Statements (unaudited)

For the Period Ended December 31, 2009

(U.S. Dollars)

## CONSOLIDATED STATEMENT OF EARNINGS AND COMPREHENSIVE INCOME (unaudited)

For the period ended December 31, (US\$ millions, except per share amounts)	Three Months Ended		Twelve Months Ended	
	2009	2008	2009	2008
Revenues, Net of Royalties <i>(Note 1)</i>	<b>2,835</b>	3,207	<b>10,140</b>	16,559
Expenses <i>(Note 1)</i>				
Production and mineral taxes	<b>7</b>	10	<b>38</b>	75
Transportation and selling	<b>205</b>	215	<b>672</b>	963
Operating	<b>315</b>	265	<b>1,154</b>	1,223
Purchased product	<b>1,544</b>	2,228	<b>5,250</b>	9,710
Depreciation, depletion and amortization	<b>354</b>	288	<b>1,343</b>	1,318
General and administrative	<b>66</b>	15	<b>188</b>	167
Interest, net <i>(Note 6)</i>	<b>75</b>	53	<b>218</b>	218
Accretion of asset retirement obligation <i>(Note 11)</i>	<b>10</b>	10	<b>39</b>	39
Foreign exchange (gain) loss, net <i>(Note 7)</i>	<b>93</b>	(162)	<b>290</b>	(250)
Other (income) loss, net	<b>(2)</b>	1	<b>(2)</b>	3
	<b>2,667</b>	2,923	<b>9,190</b>	13,466
Earnings Before Income Tax	<b>168</b>	284	<b>950</b>	3,093
Income tax expense <i>(Note 8)</i>	<b>144</b>	(96)	<b>302</b>	725
Net Earnings	<b>24</b>	380	<b>648</b>	2,368
Other Comprehensive Income, Net of Tax				
Foreign Currency Translation Adjustment	<b>706</b>	(1,583)	<b>1,979</b>	(2,246)
Comprehensive Income	<b>730</b>	(1,203)	<b>2,627</b>	122
Net Earnings per Common Share <i>(Note 15)</i>				
Basic	<b>0.03</b>	0.51	<b>0.86</b>	3.16
Diluted	<b>0.03</b>	0.51	<b>0.86</b>	3.15

See accompanying Notes to Consolidated Financial Statements (unaudited).

## CONSOLIDATED BALANCE SHEET (unaudited)

As at December 31, (US\$ millions)	2009	2008
<b>Assets</b>		
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	330	313
Risk management (Note 16)	58	681
Inventories (Note 9)	836	503
	<b>2,284</b>	2,248
Property, Plant and Equipment, net (Note 1)	14,537	12,260
Partnership Contribution Receivable	2,504	2,834
Risk Management (Note 16)	1	38
Other Assets	131	150
Goodwill (Note 1)	1,095	936
	<b>20,552</b>	18,466
<b>Liabilities and Shareholders' Equity</b>		
Current Liabilities		
Accounts payable and accrued liabilities	1,444	1,114
Income tax payable	-	254
Current portion of Partnership Contribution Payable	325	306
Risk management (Note 16)	67	40
Current portion of long-term debt (Note 10)	-	84
	<b>1,836</b>	1,798
Long-Term Debt (Note 10)	3,493	2,952
Partnership Contribution Payable	2,532	2,857
Risk Management (Note 16)	4	-
Asset Retirement Obligation (Note 11)	1,096	648
Other Liabilities	54	52
Future Income Taxes	2,357	2,411
	<b>11,372</b>	10,718
Shareholders' Equity (Note 12)	9,180	7,748
	<b>20,552</b>	18,466

See accompanying Notes to Consolidated Financial Statements (unaudited).

## CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (unaudited)

(US\$ millions)	Share Capital (Note 12)	Paid in Surplus (Note 12)	Retained Earnings	AOCI*	Owner's Net Investment	Total
<b>Balance as of December 31, 2007</b>	-	-	-	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)
<b>Balance as of December 31, 2008</b>	-	-	-	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
<b>Owner's Net Investment at Arrangement date – November 30, 2009</b>	-	-	-	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
<b>Balance as of December 31, 2009</b>	<b>2,223</b>	<b>4,751</b>	<b>39</b>	<b>2,167</b>	<b>-</b>	<b>9,180</b>

\*Accumulated Other Comprehensive Income

See accompanying Notes to Consolidated Financial Statements (unaudited).

## CONSOLIDATED STATEMENT OF CASH FLOWS (unaudited)

For the period ended December 31, (US\$ millions)	Three Months Ended		Twelve Months Ended	
	2009	2008	2009	2008
<b>Operating Activities</b>				
Net earnings	<b>24</b>	380	<b>648</b>	2,368
Depreciation, depletion and amortization	<b>354</b>	288	<b>1,343</b>	1,318
Future income taxes <i>(Note 8)</i>	<b>(374)</b>	(254)	<b>(551)</b>	385
Unrealized (gain) loss on risk management <i>(Note 16)</i>	<b>143</b>	(386)	<b>667</b>	(734)
Unrealized foreign exchange (gain) loss	<b>102</b>	(166)	<b>313</b>	(259)
Accretion of asset retirement obligation <i>(Note 11)</i>	<b>10</b>	10	<b>39</b>	39
Other	<b>(34)</b>	(46)	<b>13</b>	(29)
Net change in other assets and liabilities	<b>(13)</b>	1	<b>(23)</b>	(89)
Net change in non-cash working capital	<b>619</b>	203	<b>1,047</b>	(312)
<b>Cash From Operating Activities</b>	<b>831</b>	30	<b>3,496</b>	2,687
<b>Investing Activities</b>				
Capital expenditures <i>(Note 1)</i>	<b>(483)</b>	(626)	<b>(1,895)</b>	(2,046)
Proceeds from divestitures <i>(Note 5)</i>	<b>208</b>	-	<b>209</b>	47
Restricted cash <i>(Note 10)</i>	<b>3,619</b>	-	-	-
Net change in investments and other	<b>(29)</b>	-	<b>(18)</b>	(48)
Net change in non-cash working capital	<b>7</b>	63	<b>(76)</b>	83
<b>Cash (Used in) Investing Activities</b>	<b>3,322</b>	(563)	<b>(1,780)</b>	(1,964)
<b>Net Cash Provided before Financing Activities</b>	<b>4,153</b>	(533)	<b>1,716</b>	723
<b>Financing Activities</b>				
Net issuance (repayment) of revolving long-term debt	<b>56</b>	(249)	<b>(304)</b>	(503)
Issuance of long-term debt	-	-	<b>173</b>	268
Repayment of long-term debt	-	-	<b>(88)</b>	(236)
Issuance of U.S. Unsecured Notes <i>(Note 10)</i>	-	-	<b>3,468</b>	-
Payment of note payable to EnCana	<b>(3,500)</b>	-	<b>(3,500)</b>	-
Payment of transition account payable to EnCana	<b>(250)</b>	-	<b>(250)</b>	-
Net distribution to EnCana	<b>(319)</b>	627	<b>(1,045)</b>	(381)
Issuance of common shares	<b>1</b>	-	<b>1</b>	-
Dividends on common shares <i>(Note 12)</i>	<b>(151)</b>	-	<b>(151)</b>	-
Other	<b>(34)</b>	-	<b>(34)</b>	-
<b>Cash (Used in) Financing Activities</b>	<b>(4,197)</b>	378	<b>(1,730)</b>	(852)
Foreign Exchange Gain (Loss) on Cash and Cash Equivalents Held in Foreign Currency	<b>7</b>	(14)	<b>9</b>	(20)
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(37)</b>	(169)	<b>(5)</b>	(149)
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>185</b>	322	<b>153</b>	302
<b>Cash and Cash Equivalents, End of Year</b>	<b>148</b>	153	<b>148</b>	153

See accompanying Notes to Consolidated Financial Statements (unaudited).

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

*All amounts in US\$ millions, unless otherwise indicated  
For the period ended December 31, 2009*

## 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 and goodwill information are summarized at the end of the note.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

All amounts in US\$ millions, unless otherwise indicated  
For the period ended December 31, 2009

## 1. DESCRIPTION OF BUSINESS AND SEGMENTED DISCLOSURES (continued)

### Results of Operations

#### Segment and Geographic Information (For the three months ended December 31)

(US\$ millions)	Upstream Canada		Downstream Refining	
	2009	2008	2009	2008
Revenues, Net of Royalties	<b>1,569</b>	1,353	<b>1,431</b>	1,497
Expenses				
Production and mineral taxes	<b>7</b>	10	-	-
Transportation and selling	<b>205</b>	215	-	-
Operating	<b>184</b>	154	<b>124</b>	117
Purchased product	<b>275</b>	293	<b>1,296</b>	1,960
Operating Cash Flow	<b>898</b>	681	<b>11</b>	(580)
Depreciation, depletion and amortization	<b>290</b>	240	<b>46</b>	50
Segment Income (Loss)	<b>608</b>	441	<b>(35)</b>	(630)

(US\$ millions)	Corporate and Eliminations		Consolidated	
	2009	2008	2009	2008
Revenues, Net of Royalties	<b>(165)</b>	357	<b>2,835</b>	3,207
Expenses				
Production and mineral taxes	-	-	<b>7</b>	10
Transportation and selling	-	-	<b>205</b>	215
Operating	<b>7</b>	(6)	<b>315</b>	265
Purchased product	<b>(27)</b>	(25)	<b>1,544</b>	2,228
Depreciation, depletion and amortization	<b>18</b>	(2)	<b>354</b>	288
Segment Income (Loss)	<b>(163)</b>	390	<b>410</b>	201
General and Administrative	<b>66</b>	15	<b>66</b>	15
Interest, net	<b>75</b>	53	<b>75</b>	53
Accretion of asset retirement obligation	<b>10</b>	10	<b>10</b>	10
Foreign exchange (gain) loss, net	<b>93</b>	(162)	<b>93</b>	(162)
Other (income) loss, net	<b>(2)</b>	1	<b>(2)</b>	1
	<b>242</b>	(83)	<b>242</b>	(83)
Earnings Before Income Tax			<b>168</b>	284
Income tax expense			<b>144</b>	(96)
Net Earnings			<b>24</b>	380

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

All amounts in US\$ millions, unless otherwise indicated  
For the period ended December 31, 2009

## 1. DESCRIPTION OF BUSINESS AND SEGMENTED DISCLOSURES (continued)

### Upstream Canada Product and Divisional Information (For the three months ended December 31)

Crude Oil & NGLs						
	Integrated Oil		Canadian Plains		Total	
(US\$ millions)	2009	2008	2009	2008	2009	2008
Revenues, Net of Royalties	<b>417</b>	219	<b>395</b>	280	<b>812</b>	499
Expenses						
Production and mineral taxes	-	-	<b>5</b>	6	<b>5</b>	6
Transportation and selling	<b>144</b>	146	<b>47</b>	46	<b>191</b>	192
Operating	<b>53</b>	37	<b>68</b>	48	<b>121</b>	85
Purchased product	-	-	-	-	-	-
Operating Cash Flow	<b>220</b>	36	<b>275</b>	180	<b>495</b>	216

Natural Gas						
	Integrated Oil		Canadian Plains		Total	
(US\$ millions)	2009	2008	2009	2008	2009	2008
Revenues, Net of Royalties	<b>38</b>	38	<b>419</b>	506	<b>457</b>	544
Expenses						
Production and mineral taxes	-	-	<b>2</b>	4	<b>2</b>	4
Transportation and selling	<b>1</b>	1	<b>8</b>	16	<b>9</b>	17
Operating	<b>5</b>	9	<b>52</b>	50	<b>57</b>	59
Purchased product	-	-	-	-	-	-
Operating Cash Flow	<b>32</b>	28	<b>357</b>	436	<b>389</b>	464

Other						
	Integrated Oil		Canadian Plains		Total	
(US\$ millions)	2009	2008	2009	2008	2009	2008
Revenues, Net of Royalties	<b>15</b>	17	<b>285</b>	293	<b>300</b>	310
Expenses						
Production and mineral taxes	-	-	-	-	-	-
Transportation and selling	<b>5</b>	6	-	-	<b>5</b>	6
Operating	<b>1</b>	4	<b>5</b>	6	<b>6</b>	10
Purchased product	-	-	<b>275</b>	293	<b>275</b>	293
Operating Cash Flow	<b>9</b>	7	<b>5</b>	(6)	<b>14</b>	1

Total Upstream						
	Integrated Oil		Canadian Plains		Total	
(US\$ millions)	2009	2008	2009	2008	2009	2008
Revenues, Net of Royalties	<b>470</b>	274	<b>1,099</b>	1,079	<b>1,569</b>	1,353
Expenses						
Production and mineral taxes	-	-	<b>7</b>	10	<b>7</b>	10
Transportation and selling	<b>150</b>	153	<b>55</b>	62	<b>205</b>	215
Operating	<b>59</b>	50	<b>125</b>	104	<b>184</b>	154
Purchased product	-	-	<b>275</b>	293	<b>275</b>	293
Operating Cash Flow	<b>261</b>	71	<b>637</b>	610	<b>898</b>	681

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

All amounts in US\$ millions, unless otherwise indicated  
For the period ended December 31, 2009

## 1. DESCRIPTION OF BUSINESS AND SEGMENTED DISCLOSURES (continued)

### Results of Operations

#### Segment and Geographic Information (For the twelve months ended December 31)

(US\$ millions)	Upstream Canada		Downstream Refining	
	2009	2008	2009	2008
Revenues, Net of Royalties	<b>5,598</b>	6,972	<b>5,280</b>	9,011
Expenses				
Production and mineral taxes	<b>38</b>	75	-	-
Transportation and selling	<b>672</b>	963	-	-
Operating	<b>671</b>	742	<b>453</b>	492
Purchased product	<b>832</b>	1,101	<b>4,517</b>	8,760
Operating Cash Flow	<b>3,385</b>	4,091	<b>310</b>	(241)
Depreciation, depletion and amortization	<b>1,101</b>	1,107	<b>192</b>	188
Segment Income (Loss)	<b>2,284</b>	2,984	<b>118</b>	(429)
Property, Plant & Equipment	<b>9,660</b>	8,148	<b>4,767</b>	4,032
Goodwill	<b>1,095</b>	936	-	-
Total Assets	<b>14,481</b>	12,863	<b>5,660</b>	4,637

(US\$ millions)	Corporate and Eliminations		Consolidated	
	2009	2008	2009	2008
Revenues, Net of Royalties	<b>(738)</b>	576	<b>10,140</b>	16,559
Expenses				
Production and mineral taxes	-	-	<b>38</b>	75
Transportation and selling	-	-	<b>672</b>	963
Operating	<b>30</b>	(11)	<b>1,154</b>	1,223
Purchased product	<b>(99)</b>	(151)	<b>5,250</b>	9,710
Depreciation, depletion and amortization	<b>(669)</b>	738	<b>3,026</b>	4,588
Segment Income (Loss)	<b>(719)</b>	715	<b>1,683</b>	3,270
General and Administrative	<b>188</b>	167	<b>188</b>	167
Interest, net	<b>218</b>	218	<b>218</b>	218
Accretion of asset retirement obligation	<b>39</b>	39	<b>39</b>	39
Foreign exchange (gain) loss, net	<b>290</b>	(250)	<b>290</b>	(250)
Other (income) loss, net	<b>(2)</b>	3	<b>(2)</b>	3
Earnings Before Income Tax	<b>733</b>	177	<b>733</b>	177
Income tax expense			<b>950</b>	3,093
Net Earnings			<b>302</b>	725
Property, Plant & Equipment	<b>110</b>	80	<b>14,537</b>	12,260
Goodwill	-	-	<b>1,095</b>	936
Total Assets	<b>411</b>	966	<b>20,552</b>	18,466

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

All amounts in US\$ millions, unless otherwise indicated  
For the period ended December 31, 2009

## 1. DESCRIPTION OF BUSINESS AND SEGMENTED DISCLOSURES (continued)

### Upstream Canada Product and Divisional Information (For the twelve months ended December 31)

Crude Oil & NGLs						
(US\$ millions)	Integrated Oil		Canadian Plains		Total	
	2009	2008	2009	2008	2009	2008
Revenues, Net of Royalties	<b>1,202</b>	1,117	<b>1,373</b>	2,106	<b>2,575</b>	3,223
Expenses						
Production and mineral taxes	-	-	<b>24</b>	38	<b>24</b>	38
Transportation and selling	<b>430</b>	526	<b>179</b>	321	<b>609</b>	847
Operating	<b>176</b>	170	<b>229</b>	239	<b>405</b>	409
Purchased product	-	-	-	-	-	-
Operating Cash Flow	<b>596</b>	421	<b>941</b>	1,508	<b>1,537</b>	1,929

Natural Gas						
(US\$ millions)	Integrated Oil		Canadian Plains		Total	
	2009	2008	2009	2008	2009	2008
Revenues, Net of Royalties	<b>180</b>	192	<b>1,902</b>	2,301	<b>2,082</b>	2,493
Expenses						
Production and mineral taxes	-	-	<b>13</b>	36	<b>13</b>	36
Transportation and selling	<b>2</b>	7	<b>39</b>	71	<b>41</b>	78
Operating	<b>20</b>	39	<b>210</b>	241	<b>230</b>	280
Purchased product	-	-	-	-	-	-
Operating Cash Flow	<b>158</b>	146	<b>1,640</b>	1,953	<b>1,798</b>	2,099

Other						
(US\$ millions)	Integrated Oil		Canadian Plains		Total	
	2009	2008	2009	2008	2009	2008
Revenues, Net of Royalties	<b>73</b>	119	<b>868</b>	1,137	<b>941</b>	1,256
Expenses						
Production and mineral taxes	<b>1</b>	1	-	-	<b>1</b>	1
Transportation and selling	<b>22</b>	38	-	-	<b>22</b>	38
Operating	<b>18</b>	31	<b>18</b>	22	<b>36</b>	53
Purchased product	-	-	<b>832</b>	1,101	<b>832</b>	1,101
Operating Cash Flow	<b>32</b>	49	<b>18</b>	14	<b>50</b>	63

Total Upstream						
(US\$ millions)	Integrated Oil		Canadian Plains		Total	
	2009	2008	2009	2008	2009	2008
Revenues, Net of Royalties	<b>1,455</b>	1,428	<b>4,143</b>	5,544	<b>5,598</b>	6,972
Expenses						
Production and mineral taxes	<b>1</b>	1	<b>37</b>	74	<b>38</b>	75
Transportation and selling	<b>454</b>	571	<b>218</b>	392	<b>672</b>	963
Operating	<b>214</b>	240	<b>457</b>	502	<b>671</b>	742
Purchased product	-	-	<b>832</b>	1,101	<b>832</b>	1,101
Operating Cash Flow	<b>786</b>	616	<b>2,599</b>	3,475	<b>3,385</b>	4,091

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

All amounts in US\$ millions, unless otherwise indicated  
For the period ended December 31, 2009

## 1. DESCRIPTION OF BUSINESS AND SEGMENTED DISCLOSURES (continued)

### Capital Expenditures

For the period ended December 31, (US\$ millions)	Three Months Ended		Twelve Months Ended	
	2009	2008	2009	2008
Integrated Oil	138	159	476	644
Canadian Plains	110	272	478	872
Upstream Canada	248	431	954	1,516
Downstream Refining	212	168	907	478
Corporate	21	27	31	52
	481	626	1,892	2,046
Acquisition Capital				
Canadian Plains	2	-	3	-
Total	483	626	1,895	2,046

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; changes in the goodwill balance result from changes in foreign exchange rates.

## 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.

Accordingly, up until the completion of the Arrangement, EnCana was considered a related party due to its parent-subsidary 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**

These Consolidated Financial Statements have been prepared following the same accounting policies and methods of computation as the Cenovus annual audited Carve-out Consolidated Financial Statements for the year ended December 31, 2008, except as noted below. The disclosures provided below are incremental to those included with the Cenovus annual audited Carve-out Consolidated Financial Statements. Certain information and disclosures normally required to be included in the notes to the annual audited Consolidated Financial Statements have been condensed or have been disclosed on an annual basis only. Accordingly, these Consolidated Financial Statements should be read in conjunction with the Cenovus annual audited Carve-out Consolidated Financial Statements and the notes thereto for the year ended December 31, 2008 and the EnCana

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

*All amounts in US\$ millions, unless otherwise indicated  
For the period ended December 31, 2009*

## **2. BACKGROUND & BASIS OF PRESENTATION (continued)**

annual audited Consolidated Financial Statements and the notes thereto for the year ended December 31, 2008.

The Consolidated Financial Statements for the twelve months 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 period 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.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

*All amounts in US\$ millions, unless otherwise indicated  
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## **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, 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 Shareholder's 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. 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.

## **4. 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.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

All amounts in US\$ millions, unless otherwise indicated  
For the period ended December 31, 2009

## 4. RECENT ACCOUNTING PRONOUNCEMENTS (continued)

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.
- “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.

## 5. DIVESTITURES

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 (2008-\$47 million).

## 6. INTEREST, NET

For the period ended December 31, (US\$ millions)	Three Months Ended		Twelve Months Ended	
	2009	2008	2009	2008
Interest Expense-Long-Term Debt	<b>63</b>	41	<b>187</b>	194
Interest Expense-Other	<b>49</b>	58	<b>194</b>	213
Interest Income	<b>(37)</b>	(46)	<b>(163)</b>	(189)
	<b>75</b>	53	<b>218</b>	218

Interest Expense – Other and Interest Income are primarily due to the Partnership Contribution Payable and Receivable, respectively.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

All amounts in US\$ millions, unless otherwise indicated  
For the period ended December 31, 2009

## 7. FOREIGN EXCHANGE (GAIN) LOSS, NET

For the period ended December 31, (US\$ millions)	Three Months Ended		Twelve Months Ended,	
	2009	2008	2009	2008
Unrealized Foreign Exchange (Gain) Loss on:				
Translation of U.S. dollar debt issued from Canada	(85)	225	(357)	351
Translation of U.S. dollar Partnership Contribution Receivable issued from Canada	64	(390)	478	(608)
Other Foreign Exchange (Gain) Loss	114	3	169	7
	<b>93</b>	<b>(162)</b>	<b>290</b>	<b>(250)</b>

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) and a \$50 million realized loss related to the timing of receipt of the \$3.5 billion debt offering proceeds from escrow (See Note 10).

## 8. INCOME TAXES

The provision for income taxes is as follows:

For the period ended December 31, (US\$ millions)	Three Months Ended		Twelve Months Ended	
	2009	2008	2009	2008
Current				
Canada	544	192	896	362
United States	(26)	(34)	(43)	(22)
Total Current Tax	518	158	853	340
Future	(374)	(254)	(551)	385
	<b>144</b>	<b>(96)</b>	<b>302</b>	<b>725</b>

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.

## 9. INVENTORIES

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

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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## 10. 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	
		<b>3,525</b>	
Total Debt Principal		<b>3,556</b>	
Debt Discounts and Transaction Costs	C	(63)	
Current Portion of Long-Term Debt	D	-	
		<b>3,493</b>	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.

### 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
	<b>3,500</b>

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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For the period ended December 31, 2009

## 10. 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

(US\$ 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

Outstanding borrowings under the bank credit facilities are not included as an amount due in 2010 as these borrowings are fully supported by bank credit facilities that have no repayment requirements within the next year.

## 11. 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 Outflows	342	69
Accretion Expense	39	39
Foreign Currency Translation	104	(133)
Asset Retirement Obligation, End of Year	1,096	648

The change in estimated future cash outflows in 2009 is due to the increased estimate of costs to be incurred and the rate of discount used for the current year estimate.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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## 12. 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. The 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.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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## 12. 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 options issued by the Company have an associated Tandem Share Appreciation Right ("TSAR") attached to them (see Note 14).

### 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 accounts 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	<b>C\$26.50</b>

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	<b>23,047,704</b>	<b>10,491,119</b>	<b>27.14</b>
Exercised – SARs	<b>(29,840)</b>	-	<b>18.57</b>
Exercised – Options	<b>(1,206)</b>	-	<b>16.77</b>
Forfeited	<b>(71,321)</b>	<b>(28,476)</b>	<b>29.50</b>
Outstanding, End of December 31, 2009	<b>22,945,337</b>	<b>10,462,643</b>	<b>27.14</b>
Exercisable, End of December 31, 2009	<b>9,972,272</b>	<b>2,236,641</b>	<b>25.29</b>

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

All amounts in US\$ millions, unless otherwise indicated  
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## 12. SHARE CAPITAL (continued)

Range of Exercise Price (C\$)	Outstanding TSARs				Exercisable TSARs		
	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
	<b>22,945,337</b>	<b>10,462,643</b>	<b>2.62</b>	<b>27.14</b>	<b>9,972,272</b>	<b>2,236,641</b>	<b>25.29</b>

## 13. 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
Debt	3,493	3,036
Net Earnings	648	2,368
Add (deduct):		
Interest, net	218	218
Income tax expense	302	725
Depreciation, depletion and amortization	1,343	1,318
Accretion of asset retirement obligation	39	39
Foreign exchange (gain) loss, net	290	(250)
Other (income) loss, net	(2)	3
Adjusted EBITDA	2,838	4,421
Debt to Adjusted EBITDA	1.2x	0.7x

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

*All amounts in US\$ millions, unless otherwise indicated  
For the period ended December 31, 2009*

## 13. 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.

## 14. 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 12, 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 Unit 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.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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## 14. 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

Range of Exercise Price (C\$)	Outstanding TSARs				Exercisable TSARs		
	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.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

All amounts in US\$ millions, unless otherwise indicated  
For the period ended December 31, 2009

## 14. COMPENSATION PLANS (continued)

### 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

Range of Exercise Price (C\$)	Outstanding SARs				Exercisable SARs		
	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

Range of Exercise Price (C\$)	Outstanding EnCana Replacement TSARs				Exercisable EnCana Replacement TSARs		
	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	-	42.48
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

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

All amounts in US\$ millions, unless otherwise indicated  
For the period ended December 31, 2009

## 14. COMPENSATION PLANS (continued)

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			

  

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.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

All amounts in US\$ millions, unless otherwise indicated  
For the period ended December 31, 2009

## 14. COMPENSATION PLANS (continued)

### 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
EnCana TSARs	4	(9)
EnCana SARs	1	-
EnCana DSUs	2	1

## 15. PER SHARE AMOUNTS

(millions)	For the Three Months Ended					For the Twelve Months Ended December 31,	
	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Q4 2008	2009	2008
Weighted Average Common Shares Outstanding - Basic	750.5	751.0	751.2	<b>751.3</b>	750.3	<b>751.0</b>	750.1
Effect of Dilutive Securities	0.9	0.4	0.2	<b>0.1</b>	1.0	<b>0.4</b>	1.7
Weighted Average Common Shares Outstanding - Diluted	751.4	751.4	751.4	<b>751.4</b>	751.3	<b>751.4</b>	751.8

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

## 16. 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 16 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.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

All amounts in US\$ millions, unless otherwise indicated  
For the period ended December 31, 2009

## 16. 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 contracts 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

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

All amounts in US\$ millions, unless otherwise indicated  
For the period ended December 31, 2009

## 16. 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
<b>Total Fair Value</b>	<b>(12)</b>	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

As at December 31, 2009 (US\$ millions)	Notional Volumes	Term	Average Price	Fair Value
<b>Crude Oil Contracts</b>				
Fixed Price Contracts				
WTI NYMEX Fixed Price	24,600 bbls/d	2010	76.99 US\$/bbl	(47)
Other Financial Positions *				(8)
<b>Crude Oil Fair Value Position</b>				<b>(55)</b>
<b>Natural Gas Contracts</b>				
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)
<b>Natural Gas Fair Value Position</b>				<b>51</b>
<b>Power Purchase Contracts</b>				
<b>Power Fair Value Position</b>				<b>(8)</b>

\* 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.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

All amounts in US\$ millions, unless otherwise indicated  
For the period ended December 31, 2009

## 16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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

For the period ended December 31, (US\$ millions)	Realized Gain (Loss)			
	Three Months Ended		Twelve Months Ended	
	2009	2008	2009	2008
Revenues, Net of Royalties	158	110	1,005	(323)
Operating Expenses and Other	(3)	29	(32)	24
Gain (Loss) on Risk Management	155	139	973	(299)

For the period ended December 31, (US\$ millions)	Unrealized Gain (Loss)			
	Three Months Ended		Twelve Months Ended	
	2009	2008	2009	2008
Revenues, Net of Royalties	(138)	382	(639)	727
Operating Expenses and Other	(5)	4	(28)	7
Gain (Loss) on Risk Management	(143)	386	(667)	734

### Reconciliation of Unrealized Risk Management Positions

(US\$ millions)	2009		2008
	Fair Value	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
Other	-	-	-
Foreign Exchange Gain (Loss) on Canadian Dollar Contracts	2	-	-
Fair Value of Contracts Realized During the Year	(973)	(973)	299
Fair Value of Contracts, End of Year	(12)	(667)	734

### 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.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

*All amounts in US\$ millions, unless otherwise indicated  
For the period ended December 31, 2009*

## **16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)**

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.

### **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 13, 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 flow 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.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

All amounts in US\$ millions, unless otherwise indicated  
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## 16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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

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

\* Principal and interest, including current portion.

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 10.

### 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).

## 17. 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.