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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 Canadian 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, 2010. 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, 2010 as stated in their Auditors' Report. PricewaterhouseCoopers LLP has provided such opinions.



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



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

February 18, 2011



Independent Auditor's Report

TO THE SHAREHOLDERS OF CENOVUS ENERGY INC.

We have completed integrated audits of Cenovus Energy Inc.'s 2010, 2009 and 2008 consolidated financial statements and its internal control over financial reporting as at December 31, 2010. Our opinions, based on our audits, are presented below.

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of Cenovus Energy Inc., which comprise the consolidated balance sheets at December 31, 2010 and December 31, 2009 and the consolidated statements of earnings and comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2010, and the related notes including a summary of significant accounting policies.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Canadian generally accepted auditing standards require that we comply with ethical requirements.

An audit involves performing procedures to obtain audit evidence, on a test basis, about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting principles and policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion on the consolidated financial statements.

OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Cenovus Energy Inc. as at December 31, 2010 and December 31, 2009 and the results of its operations and cash flows for each of the three years in the period ended December 31, 2010 in accordance with Canadian generally accepted accounting principles.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

We have also audited Cenovus Energy Inc.'s internal control over financial reporting as at December 31, 2010, based on criteria established in Internal Control - Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

MANAGEMENT'S RESPONSIBILITY FOR INTERNAL CONTROL OVER FINANCIAL REPORTING

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 Controls over Financial Reporting.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on 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 on the company's internal control over financial reporting.

DEFINITION OF INTERNAL CONTROL OVER FINANCIAL REPORTING

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 Canadian 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 Canadian 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.

INHERENT LIMITATIONS

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.

OPINION

In our opinion, Cenovus Energy Inc. maintained, in all material respects, effective internal control over financial reporting as at December 31, 2010 based on criteria established in Internal Control — Integrated Framework issued by COSO.

The logo for PricewaterhouseCoopers LLP, featuring the company name in a stylized, orange, cursive script.

PricewaterhouseCoopers LLP

Chartered Accountants
Calgary, Alberta, Canada

February 18, 2011



CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME

For the years ended December 31, (\$ millions, except per share amounts)

		2010	2009	2008
Gross Revenues	(Note 1)	13,422	11,790	18,103
Less: Royalties	(Note 1)	449	273	533
Net Revenues		12,973	11,517	17,570
Expenses	(Note 1)			
Production and mineral taxes		34	44	80
Transportation and blending		1,065	760	1,021
Operating		1,302	1,312	1,292
Purchased product		7,549	5,910	10,341
Depreciation, depletion and amortization		1,310	1,527	1,397
General and administrative		251	211	171
Interest, net	(Note 8)	279	244	233
Accretion of asset retirement obligation	(Note 16)	75	45	40
Foreign exchange (gain) loss, net	(Note 9)	(51)	304	(308)
(Gain) loss on divestiture of assets		9	–	–
Other (income) loss, net	(Note 6)	(13)	(2)	3
		11,810	10,355	14,270
Earnings Before Income Tax		1,163	1,162	3,300
Income tax expense	(Note 10)	170	344	774
Net Earnings		993	818	2,526
Other Comprehensive Income (Loss), Net of Tax				
Foreign currency translation adjustment		(13)	(238)	347
Comprehensive Income		980	580	2,873
Net Earnings per Common Share	(Note 22)			
Basic		1.32	1.09	3.37
Diluted		1.32	1.09	3.36

See accompanying Notes to Consolidated Financial Statements.



CONSOLIDATED BALANCE SHEETS

As at December 31, (\$ millions)

		2010	2009
Assets			
Current Assets			
Cash and cash equivalents		300	155
Accounts receivable and accrued revenues		1,055	978
Income tax receivable		31	40
Current portion of Partnership Contribution Receivable	(Note 11)	346	345
Risk management	(Note 21)	163	60
Inventories	(Note 12)	880	875
		2,775	2,453
Assets Held for Sale	(Note 6)	65	–
Property, Plant and Equipment, net	(Notes 1, 13)	15,530	15,214
Partnership Contribution Receivable	(Note 11)	2,145	2,621
Risk Management	(Note 21)	43	1
Other Assets	(Note 14)	391	320
Goodwill	(Note 1)	1,146	1,146
		22,095	21,755
Liabilities and Shareholders' Equity			
Current Liabilities			
Accounts payable and accrued liabilities		1,825	1,574
Income tax payable		154	–
Current portion of Partnership Contribution Payable	(Note 11)	343	340
Risk management	(Note 21)	163	70
		2,485	1,984
Liabilities Related to Assets Held for Sale	(Note 6)	7	–
Long-Term Debt	(Note 15)	3,432	3,656
Partnership Contribution Payable	(Note 11)	2,176	2,650
Risk Management	(Note 21)	10	4
Asset Retirement Obligation	(Note 16)	1,213	1,147
Other Liabilities	(Note 17)	346	239
Future Income Taxes	(Note 10)	2,404	2,467
		12,073	12,147
Commitments and Contingencies	(Note 23)		
Shareholders' Equity	(Note 18)	10,022	9,608
		22,095	21,755

See accompanying Notes to Consolidated Financial Statements.

Approved by the Board



Michael A. Grandin
Director
Cenovus Energy Inc.



Colin Taylor
Director
Cenovus Energy Inc.



CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(\$ millions)	Share Capital (Note 18)	Paid in Surplus (Note 18)	Retained Earnings	AOCI*	Owner's Net Investment (Note 18)	Total
Balance as at December 31, 2007	–	–	–	(123)	8,035	7,912
Net earnings	–	–	–	–	2,526	2,526
Net distribution to owner	–	–	–	–	(1,297)	(1,297)
Other comprehensive income (loss)	–	–	–	347	–	347
Balance as at December 31, 2008	–	–	–	224	9,264	9,488
Net earnings	–	–	–	–	773	773
Net distribution to owner	–	–	–	–	(302)	(302)
Other comprehensive income (loss)	–	–	–	(212)	–	(212)
Owner's Net Investment at Arrangement date – November 30, 2009	–	–	–	12	9,735	9,747
Issuance of common stock in connection with the Arrangement	3,680	–	–	–	(3,680)	–
Reclassification of owner's net investment to paid in surplus in connection with the Arrangement	–	6,055	–	–	(6,055)	–
Net earnings – December 1 to December 31	–	–	45	–	–	45
Dividends on common shares	–	(159)	–	–	–	(159)
Common shares issued under option plans	1	–	–	–	–	1
Other comprehensive income (loss)	–	–	–	(26)	–	(26)
Balance as at December 31, 2009	3,681	5,896	45	(14)	–	9,608
Net earnings	–	–	993	–	–	993
Common shares issued under option plans	35	–	–	–	–	35
Dividends on common shares	–	–	(601)	–	–	(601)
Other comprehensive income (loss)	–	–	–	(13)	–	(13)
Balance as at December 31, 2010	3,716	5,896	437	(27)	–	10,022

* Accumulated Other Comprehensive Income

See accompanying Notes to Consolidated Financial Statements.



CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, (\$ millions)

	2010	2009	2008
Operating Activities			
Net earnings	993	818	2,526
Depreciation, depletion and amortization	1,310	1,527	1,397
Future income taxes (recovery)	88	(590)	405
Unrealized (gain) loss on risk management	(46)	698	(899)
Unrealized foreign exchange (gain) loss	(69)	327	(317)
Accretion of asset retirement obligation	75	45	40
(Gain) loss on divestiture of assets	9	–	–
Other	55	20	(37)
Net change in other assets and liabilities	(55)	(26)	(92)
Net change in non-cash working capital	234	220	202
Cash From Operating Activities	2,594	3,039	3,225
Investing Activities			
Capital expenditures	(2,208)	(2,165)	(2,204)
Proceeds from divestitures	309	222	48
Net change in other assets	4	(25)	(49)
Net change in non-cash working capital	99	(95)	96
Cash (Used in) Investing Activities	(1,796)	(2,063)	(2,109)
Net Cash Provided before Financing Activities	798	976	1,116
Financing Activities			
Net issuance (repayment) of revolving long-term debt	(58)	(342)	41
Issuance of long-term debt	–	204	276
Repayment of long-term debt	–	(97)	(247)
Issuance of U.S. Unsecured Notes	–	3,718	–
Payment of note payable to Encana	–	(3,701)	–
Payment of transition account payable to Encana	–	(264)	–
Net financing transactions with Encana	–	(302)	(1,297)
Issuance of common shares	28	1	–
Dividends on common shares	(601)	(159)	–
Other	–	(35)	–
Cash (Used in) Financing Activities	(631)	(977)	(1,227)
Foreign Exchange Gain (Loss) on Cash and Cash Equivalents Held in Foreign Currency	(22)	(32)	1
Increase (Decrease) in Cash and Cash Equivalents	145	(33)	(110)
Cash and Cash Equivalents, Beginning of Year	155	188	298
Cash and Cash Equivalents, End of Year	300	155	188
Supplemental Cash Flow Information	(Note 22)		

See accompanying Notes to Consolidated Financial Statements.