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*“You can count on Cenovus’s commitment to develop our resources safely and responsibly, and to always strive to be better at how we do it.”*

CLEAR VISION + SMART EXECUTION = AN EXCITING FUTURE



BRIAN C. FERGUSON  
PRESIDENT & CHIEF EXECUTIVE OFFICER

With our first full year as an independent oil company behind us, I am proud of what we have accomplished at Cenovus in such a short time. It gives me great pleasure to report our accomplishments to you in this, our first annual report to shareholders.

2010 was a year of strong operational results, exceptional reserves growth and solid financial performance. One where we shaped our teams, our systems and our culture. Most importantly, it was one where we positioned Cenovus for future success by setting the strategic direction for our company. We did this by assessing our vast resource to better understand our growth opportunities, developing a 10-year business plan,

and focusing on increasing production from our high-quality oil sands assets.

As part of our 10-year plan, we have set clear milestones to measure our success, which are outlined on page 18. The nature of oil sands means we are in a long-term business – so it’s important that you know our milestones and can track our progress.

I am pleased to report that we met or exceeded all the key milestones we set for 2010.

In everything we do, our aim is to increase value for you, our shareholders. We are targeting to double our net asset value by 2015, and boost our oil sands production five-fold to 300,000 barrels per day net to Cenovus by the end of 2019. We also expect to provide you with a strong and sustainable dividend.

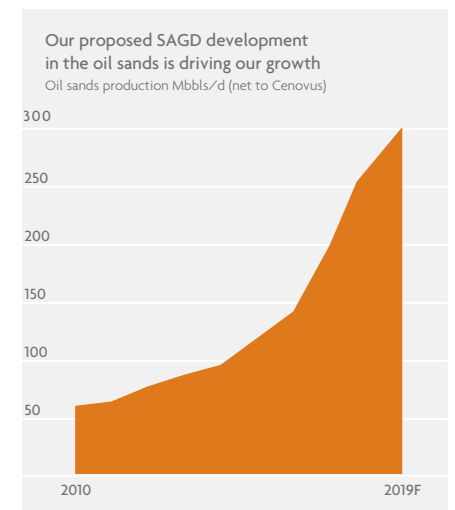
**2010 – SETTING THE STAGE FOR FUTURE VALUE CREATION**

Early in 2010, we undertook a third-party assessment to fully understand our oil sands resource. The evaluation, using some of the most rigorous standards in the industry, identified best estimate total bitumen initially-in-place on Cenovus lands of 137 billion barrels, of which 56 billion barrels are considered discovered.

We created our long-term plan to take advantage of these tremendous assets by focusing on bringing this high-quality resource into production.

By the end of 2010, our efforts throughout the year resulted in an independent evaluation determining that our proved bitumen reserves had increased by 33 percent over 2009 to nearly 1.2 billion barrels.

A particular highlight was that our Foster Creek and Christina Lake facilities increased production by 33 percent in 2010 compared with 2009, for a combined production of over 59,000 barrels per day net to Cenovus. At the same time, our operating costs at these facilities decreased 10 percent in 2010 compared to 2009, to an average



of \$11.28 per barrel – all while we were operating with even more emphasis on working safely. To the credit of our entire operations team, their focus on safety resulted in fewer total incidents during the year.

We furthered our expansions at both Foster Creek and Christina Lake in 2010 and advanced development plans at two of our emerging projects, Narrows Lake and Grand Rapids. As well, our established oil and natural gas properties in Alberta and Saskatchewan continued to demonstrate strong cash-generating abilities, providing approximately \$1.3 billion of operating cash flow in excess of their capital expenditures in 2010. The cash generated from our conventional oil and natural gas properties funds our continued oil sands growth, and the natural gas also fuels our oil sands and refining operations.

In our refining operations, we continued to concentrate on increasing capacity through a coker and refinery expansion (CORE) project at our Wood River Refinery in Illinois. Upon anticipated start up of the coker in the fourth quarter of 2011, we expect improved profitability from this part of our business.

Managing our business with a continued focus on value creation and cost control resulted in Cenovus having an even stronger financial position at the end of 2010 than at the start of the year. We have a healthy balance sheet, closing 2010 with a debt to capitalization ratio of 26 percent and debt to adjusted EBITDA ratio of 1.2 times. Total cash flow was strong at \$3.21 per share for the year, while our capital investment in 2010 was \$2.1 billion. At Cenovus, we take a responsible and careful approach to our financial strategy. We are committed to continuing to provide our shareholders with regular dividend payments as part of this disciplined approach.

You can read more about our accomplishments in the *2010 Year in review* section on pages 25 to 28 of this report.

Another significant action we undertook in 2010 was to organize ourselves internally to maximize efficiencies and better align our structure with our plan. We accomplished this by eliminating our operating divisions and creating a centralized operations team under the leadership of John Brannan, who assumed the new position of Executive Vice-President & Chief Operating Officer. John brings more than 30 years of oil and natural gas experience to this new role, and his leadership will drive continued achievements in our operations.

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#### 2011 – BUILDING ON OUR 2010 MOMENTUM

With the foundation of our company in place, 2011 will be focused on building on the momentum we achieved in 2010, by pursuing regulatory approvals, advancing construction of the expansion phases at Foster Creek and Christina Lake, and pursuing opportunities for production growth in the Greater Pelican Region.

The milestones we have set for 2011 align with our 10-year business plan and our goal of growing net asset value. They include executing our largest-ever stratigraphic well program to evaluate our undeveloped land, expand our contingent resource and advance projects into the regulatory queue.

As well, we are focused on delivering on our upstream operational targets and keeping our projects on schedule and on budget, so we can continue to crystallize the value our great assets provide for our company and our shareholders.

#### THE CENOVUS EQUATION – OUR KEY STRENGTHS

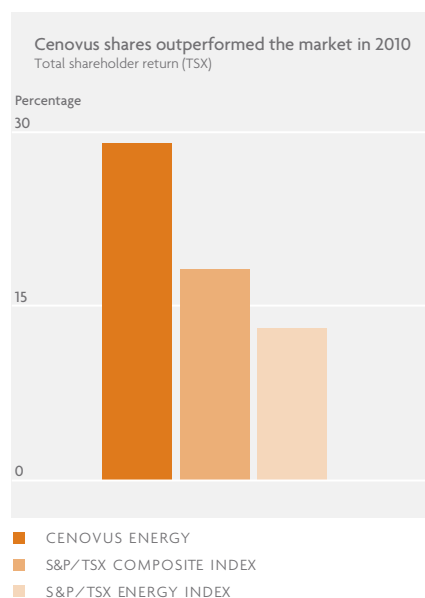
What sets Cenovus apart is the combination of our great financial and operating assets, our commitment to responsible operations, our ability to advance technology to improve our results, and the 3,500 dedicated people who make it all happen. People who bring decades of experience, knowledge and enthusiasm to their work. Thanks to them, we are able to develop new ideas, new technologies and better approaches.

I am proud of our achievements in bringing Cenovus to this point, and would like to acknowledge and thank our Board of Directors, our Executive Team, and our employees and contractors for demonstrating such dedication to Cenovus’s success. We have an air of excitement, a can-do attitude and a driving passion to make Cenovus the best it can be. In a year of change, we maintained focus on building our company, we delivered on our targets, and we had excellent operating and financial results.

We are building a company that, at its core, believes in doing right by the environment and the communities where we live and work. We are focused on doing the right things to help provide the energy resources the world needs and relies on every day.

With demand for energy growing, you can count on Cenovus’s commitment to develop our resources safely and responsibly, and to always strive to be better at how we do it. It’s at the heart of the Cenovus equation. And it’s our promise to you.

We have set ambitious goals for ourselves, but I believe we are in a strong position to realize our tremendous future. Our Executive Team and I look forward to the exciting possibilities that lie ahead.



THE VALUE OF A CENOVUS HOLDING WAS UP 29 PERCENT ON THE BASIS OF ALL DIVIDEND PAYMENTS BEING REINVESTED COMPARED WITH AN 18 PERCENT INCREASE IN THE S&P/TSX COMPOSITE INDEX AND 13 PERCENT FOR THE S&P/TSX ENERGY INDEX.