



Cenovus Energy Inc.

Interim Consolidated Financial Statements (unaudited)

For the Period Ended June 30, 2010

(Canadian Dollars)

CONSOLIDATED STATEMENT OF EARNINGS AND COMPREHENSIVE INCOME (unaudited)

For the period ended June 30, (C\$ millions, except per share amounts)	Three Months Ended		Six Months Ended		
	2010	2009	2010	2009	
Gross Revenues	(Note 1)	3,318	2,871	6,920	5,607
Less: Royalties		123	53	234	96
Net Revenues		3,195	2,818	6,686	5,511
Expenses	(Note 1)				
Production and mineral taxes		6	13	18	26
Transportation and selling		291	184	582	350
Operating		322	320	670	684
Purchased product		1,888	1,425	3,653	2,561
Depreciation, depletion and amortization		325	382	649	762
General and administrative		59	52	111	93
Interest, net	(Note 7)	66	57	131	102
Accretion of asset retirement obligation	(Note 13)	18	12	40	23
Foreign exchange (gain) loss, net	(Note 8)	28	143	1	91
Other (income) loss, net		9	-	8	-
		3,012	2,588	5,863	4,692
Earnings Before Income Tax		183	230	823	819
Income tax expense	(Note 9)	11	70	126	144
Net Earnings		172	160	697	675
Other Comprehensive Income, Net of Tax					
Foreign Currency Translation Adjustment		129	(104)	41	(17)
Comprehensive Income		301	56	738	658
Net Earnings per Common Share	(Note 18)				
Basic		0.23	0.21	0.93	0.90
Diluted		0.23	0.21	0.93	0.90

See accompanying Notes to Interim Consolidated Financial Statements (unaudited).

CONSOLIDATED BALANCE SHEET (unaudited)

As at (C\$ millions)	June 30, 2010	December 31, 2009
Assets		
Current Assets		
Cash and cash equivalents	409	155
Accounts receivable and accrued revenues	1,063	978
Income tax receivable	34	40
Current portion of Partnership Contribution Receivable	359	345
Risk management	196	60
Inventories	809	875
	2,870	2,453
Property, Plant and Equipment, net	15,469	15,214
Partnership Contribution Receivable	2,475	2,621
Risk Management	62	1
Other Assets	427	320
Goodwill	1,146	1,146
	22,449	21,755
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable and accrued liabilities	1,547	1,574
Income tax payable	64	-
Current portion of Partnership Contribution Payable	355	340
Risk management	8	70
	1,974	1,984
Long-Term Debt	3,821	3,656
Partnership Contribution Payable	2,506	2,650
Risk Management	4	4
Asset Retirement Obligation	1,175	1,147
Other Liabilities	353	239
Future Income Taxes	2,561	2,467
	12,394	12,147
Shareholders' Equity	10,055	9,608
	22,449	21,755

See accompanying Notes to Interim Consolidated Financial Statements (unaudited).

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (unaudited)

(C\$ millions)	Share Capital (Note 14)	Paid in Surplus	Retained Earnings	AOCI*	Owner's Net Investment (Note 14)	Total
Balance as of December 31, 2008	-	-	-	224	9,264	9,488
Net earnings	-	-	-	-	675	675
Net distribution to owner	-	-	-	-	(322)	(322)
Other comprehensive income (loss)	-	-	-	(17)	-	(17)
Balance as of June 30, 2009	-	-	-	207	9,617	9,824
Balance as of December 31, 2009	3,681	5,896	45	(14)	-	9,608
Net earnings	-	-	697	-	-	697
Common shares issued under option plans	9	-	-	-	-	9
Dividends on common shares	-	-	(300)	-	-	(300)
Other comprehensive income (loss)	-	-	-	41	-	41
Balance as of June 30, 2010	3,690	5,896	442	27	-	10,055

*Accumulated Other Comprehensive Income

See accompanying Notes to Interim Consolidated Financial Statements (unaudited).

CONSOLIDATED STATEMENT OF CASH FLOWS (unaudited)

For the period ended June 30, (C\$ millions)	Three Months Ended		Six Months Ended	
	2010	2009	2010	2009
Operating Activities				
Net earnings	172	160	697	675
Depreciation, depletion and amortization	325	382	649	762
Future income taxes	(4)	(81)	96	(105)
Unrealized (gain) loss on risk management	(22)	297	(259)	211
Unrealized foreign exchange (gain) loss	31	160	(1)	107
Accretion of asset retirement obligation	18	12	40	23
Other	17	15	36	13
Net change in other assets and liabilities	(13)	(6)	(28)	(9)
Net change in non-cash working capital	(53)	(146)	61	(202)
Cash From Operating Activities	471	793	1,291	1,475
Investing Activities				
Capital expenditures	(477)	(489)	(970)	(1,141)
Proceeds from divestitures	72	3	144	3
Net change in investments and other	-	13	2	14
Net change in non-cash working capital	(63)	(59)	(16)	(126)
Cash (Used in) Investing Activities	(468)	(532)	(840)	(1,250)
Net Cash Provided (Used) before Financing Activities	3	261	451	225
Financing Activities				
Net issuance (repayment) of revolving long-term debt	164	(403)	106	(163)
Net financing transactions with Encana	-	(193)	-	(322)
Issuance of long-term debt	-	204	-	204
Issuance of common shares	2	-	7	-
Dividends on common shares	(150)	-	(300)	-
Cash From (Used in) Financing Activities	16	(392)	(187)	(281)
Foreign Exchange Gain (Loss) on Cash and Cash Equivalents Held in Foreign Currency	(7)	(3)	(10)	(5)
Increase (Decrease) in Cash and Cash Equivalents	12	(134)	254	(61)
Cash and Cash Equivalents, Beginning of Period	397	261	155	188
Cash and Cash Equivalents, End of Period	409	127	409	127

See accompanying Notes to Interim Consolidated Financial Statements (unaudited).

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

All amounts in C\$ millions, unless otherwise indicated

For the period ended June 30, 2010

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 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 the Company's joint venture partner, as well as other oil sands interests and the Athabasca natural gas assets. The Integrated Oil Division has assets in both Canada and the U.S. including two major oil sands projects: (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 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, the Company's operating and reportable segments are:

- **Upstream Canada**, which includes Cenovus's development and production of 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, as well as several other emerging projects.
- **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 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 INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

All amounts in C\$ millions, unless otherwise indicated

For the period ended June 30, 2010

1. DESCRIPTION OF BUSINESS AND SEGMENTED DISCLOSURES (continued)

Results of Operations

Segment and Geographic Information (For the three months ended June 30)

(C\$ millions)	Upstream Canada		Downstream Refining	
	2010	2009	2010	2009
Gross Revenues	1,726	1,661	1,610	1,526
Less: Royalties	123	53	-	-
Net Revenues	1,603	1,608	1,610	1,526
Expenses				
Production and mineral taxes	6	13	-	-
Transportation and selling	291	184	-	-
Operating	215	188	110	129
Purchased product	402	228	1,524	1,219
Operating Cash Flow	689	995	(24)	178
Depreciation, depletion and amortization	264	316	49	54
Segment Income (Loss)	425	679	(73)	124

(C\$ millions)	Corporate and Eliminations		Consolidated	
	2010	2009	2010	2009
Gross Revenues	(18)	(316)	3,318	2,871
Less: Royalties	-	-	123	53
Net Revenues	(18)	(316)	3,195	2,818
Expenses				
Production and mineral taxes	-	-	6	13
Transportation and selling	-	-	291	184
Operating	(3)	3	322	320
Purchased product	(38)	(22)	1,888	1,425
Depreciation, depletion and amortization	23	(297)	688	876
Segment Income (Loss)	11	(309)	363	494
General and administrative	59	52	59	52
Interest, net	66	57	66	57
Accretion of asset retirement obligation	18	12	18	12
Foreign exchange (gain) loss, net	28	143	28	143
Other (income) loss, net	9	-	9	-
	180	264	180	264
Earnings Before Income Tax			183	230
Income tax expense			11	70
Net Earnings			172	160

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

All amounts in C\$ millions, unless otherwise indicated

For the period ended June 30, 2010

1. DESCRIPTION OF BUSINESS AND SEGMENTED DISCLOSURES (continued)

Upstream Canada Product and Divisional Information (For the three months ended June 30)

(C\$ millions)	Crude Oil & NGLs					
	Integrated Oil		Canadian Plains		Total	
	2010	2009	2010	2009	2010	2009
Gross Revenues	507	325	452	445	959	770
Less: Royalties	46	2	72	48	118	50
Net Revenues	461	323	380	397	841	720
Expenses						
Production and mineral taxes	-	-	8	7	8	7
Transportation and selling	224	116	56	51	280	167
Operating	61	45	82	64	143	109
Purchased product	-	-	-	-	-	-
Operating Cash Flow	176	162	234	275	410	437

(C\$ millions)	Natural Gas					
	Integrated Oil		Canadian Plains		Total	
	2010	2009	2010	2009	2010	2009
Gross Revenues	23	79	323	558	346	637
Less: Royalties	2	(4)	3	3	5	(1)
Net Revenues	21	83	320	555	341	638
Expenses						
Production and mineral taxes	-	-	(2)	6	(2)	6
Transportation and selling	1	-	10	12	11	12
Operating	4	5	60	60	64	65
Purchased product	-	-	-	-	-	-
Operating Cash Flow	16	78	252	477	268	555

(C\$ millions)	Other					
	Integrated Oil		Canadian Plains		Total	
	2010	2009	2010	2009	2010	2009
Gross Revenues	6	18	415	236	421	254
Less: Royalties	-	4	-	-	-	4
Net Revenues	6	14	415	236	421	250
Expenses						
Production and mineral taxes	-	-	-	-	-	-
Transportation and selling	-	5	-	-	-	5
Operating	1	8	7	6	8	14
Purchased product	-	-	402	228	402	228
Operating Cash Flow	5	1	6	2	11	3

(C\$ millions)	Total Upstream					
	Integrated Oil		Canadian Plains		Total	
	2010	2009	2010	2009	2010	2009
Gross Revenues	536	422	1,190	1,239	1,726	1,661
Less: Royalties	48	2	75	51	123	53
Net Revenues	488	420	1,115	1,188	1,603	1,608
Expenses						
Production and mineral taxes	-	-	6	13	6	13
Transportation and selling	225	121	66	63	291	184
Operating	66	58	149	130	215	188
Purchased product	-	-	402	228	402	228
Operating Cash Flow	197	241	492	754	689	995

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

All amounts in C\$ millions, unless otherwise indicated

For the period ended June 30, 2010

1. DESCRIPTION OF BUSINESS AND SEGMENTED DISCLOSURES (continued)

Results of Operations

Segment and Geographic Information (For the six months ended June 30)

(C\$ millions)	Upstream Canada		Downstream Refining	
	2010	2009	2010	2009
Gross Revenues	3,593	3,154	3,128	2,680
Less: Royalties	234	96	-	-
Net Revenues	3,359	3,058	3,128	2,680
Expenses				
Production and mineral taxes	18	26	-	-
Transportation and selling	582	350	-	-
Operating	420	386	249	276
Purchased product	806	446	2,909	2,153
Operating Cash Flow	1,533	1,850	(30)	251
Depreciation, depletion and amortization	529	620	100	117
Segment Income (Loss)	1,004	1,230	(130)	134

As at (C\$ millions)	June 30,	December 31,	June 30,	December 31,
	2010	2009	2010	2009
Property, Plant & Equipment	10,014	10,109	5,342	4,989
Goodwill	1,146	1,146	-	-
Total Assets	14,980	15,218	6,558	6,107

(C\$ millions)	Corporate and Eliminations		Consolidated	
	2010	2009	2010	2009
Gross Revenues	199	(227)	6,920	5,607
Less: Royalties	-	-	234	96
Net Revenues	199	(227)	6,686	5,511
Expenses				
Production and mineral taxes	-	-	18	26
Transportation and selling	-	-	582	350
Operating	1	22	670	684
Purchased product	(62)	(38)	3,653	2,561
Depreciation, depletion and amortization	260	(211)	1,763	1,890
Income tax expense	20	25	649	762
Segment Income (Loss)	240	(236)	1,114	1,128
General and administrative	111	93	111	93
Interest, net	131	102	131	102
Accretion of asset retirement obligation	40	23	40	23
Foreign exchange (gain) loss, net	1	91	1	91
Other (income) loss, net	8	-	8	-
	291	309	291	309
Earnings Before Income Tax			823	819
Income tax expense			126	144
Net Earnings			697	675

As at (C\$ millions)	June 30,	December 31,	June 30,	December 31,
	2010	2009	2010	2009
Property, Plant & Equipment	113	116	15,469	15,214
Goodwill	-	-	1,146	1,146
Total Assets	911	430	22,449	21,755

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

All amounts in C\$ millions, unless otherwise indicated

For the period ended June 30, 2010

1. DESCRIPTION OF BUSINESS AND SEGMENTED DISCLOSURES (continued)

Upstream Canada Product and Divisional Information (For the six months ended June 30)

(C\$ millions)	Crude Oil & NGLs					
	Integrated Oil		Canadian Plains		Total	
	2010	2009	2010	2009	2010	2009
Gross Revenues	1,022	530	978	788	2,000	1,318
Less: Royalties	73	3	146	77	219	80
Net Revenues	949	527	832	711	1,781	1,238
Expenses						
Production and mineral taxes	-	-	15	16	15	16
Transportation and selling	437	199	120	114	557	313
Operating	121	95	154	127	275	222
Purchased product	-	-	-	-	-	-
Operating Cash Flow	391	233	543	454	934	687

(C\$ millions)	Natural Gas					
	Integrated Oil		Canadian Plains		Total	
	2010	2009	2010	2009	2010	2009
Gross Revenues	50	120	705	1,214	755	1,334
Less: Royalties	6	-	9	11	15	11
Net Revenues	44	120	696	1,203	740	1,323
Expenses						
Production and mineral taxes	-	-	3	10	3	10
Transportation and selling	1	1	24	25	25	26
Operating	11	14	119	124	130	138
Purchased product	-	-	-	-	-	-
Operating Cash Flow	32	105	550	1,044	582	1,149

(C\$ millions)	Other					
	Integrated Oil		Canadian Plains		Total	
	2010	2009	2010	2009	2010	2009
Gross Revenues	8	35	830	467	838	502
Less: Royalties	-	5	-	-	-	5
Net Revenues	8	30	830	467	838	497
Expenses						
Production and mineral taxes	-	-	-	-	-	-
Transportation and selling	-	11	-	-	-	11
Operating	3	15	12	11	15	26
Purchased product	-	-	806	446	806	446
Operating Cash Flow	5	4	12	10	17	14

(C\$ millions)	Total Upstream					
	Integrated Oil		Canadian Plains		Total	
	2010	2009	2010	2009	2010	2009
Gross Revenues	1,080	685	2,513	2,469	3,593	3,154
Less: Royalties	79	8	155	88	234	96
Net Revenues	1,001	677	2,358	2,381	3,359	3,058
Expenses						
Production and mineral taxes	-	-	18	26	18	26
Transportation and selling	438	211	144	139	582	350
Operating	135	124	285	262	420	386
Purchased product	-	-	806	446	806	446
Operating Cash Flow	428	342	1,105	1,508	1,533	1,850

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

All amounts in C\$ millions, unless otherwise indicated

For the period ended June 30, 2010

1. DESCRIPTION OF BUSINESS AND SEGMENTED DISCLOSURES (continued)

Capital Expenditures

For the period ended June 30, (C\$ millions)	Three Months Ended		Six Months Ended	
	2010	2009	2010	2009
Integrated Oil	147	122	298	277
Canadian Plains	102	99	241	334
Upstream Canada	249	221	539	611
Downstream Refining	168	265	370	517
Corporate	13	2	14	12
	430	488	923	1,140
Acquisition Capital				
Integrated Oil	18	-	18	-
Canadian Plains	16	1	16	1
Corporate	13	-	13	-
Total	477	489	970	1,141

Goodwill Additions

There were no additions to goodwill during 2010 or 2009.

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 plan of arrangement ("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 Cenovus shares began on the TSX on December 3, 2009 and on the NYSE on December 9, 2009.

Basis of presentation / Carve-out financial information for comparative periods

These interim Consolidated Financial Statements have been presented in accordance with Canadian generally accepted accounting principles ("GAAP") and have been prepared following the same accounting policies and methods of computation as the Cenovus annual audited Consolidated Financial Statements for the year ended December 31, 2009, except as outlined in Notes 3 and 4. The disclosures provided below are incremental to those included with the Cenovus annual audited 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 interim Consolidated Financial Statements should be read in conjunction with the Cenovus annual audited Consolidated Financial Statements and the notes thereto for the year ended December 31, 2009.

Since the Company was created on November 30, 2009 and began independent operations on December 1, 2009, the comparative information provided in these interim Consolidated Financial Statements represent the financial position, results of operations and cash flows of the businesses transferred to Cenovus on a carve-out basis. Management believes the assumptions underlying the Cenovus Carve-out Consolidated Financial Statements for prior period comparatives are reasonable.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

All amounts in C\$ millions, unless otherwise indicated

For the period ended June 30, 2010

2. BACKGROUND & BASIS OF PRESENTATION (continued)

However, these comparative amounts may not reflect Cenovus's financial position, results of operations, and cash flows had Cenovus been a stand-alone company during the comparative periods presented. For additional information regarding the carve-out process, readers should refer to Cenovus's annual audited Consolidated Financial Statements and the notes thereto for the year ended December 31, 2009.

3. CHANGE IN REPORTING CURRENCY

Upon the creation of the Company on November 30, 2009 as a result of the Arrangement, Cenovus reported its results in U.S. dollars for the preparation of its December 31, 2009 financial statements as this was the reporting currency used by Encana. Effective January 1, 2010, the Company changed its reporting currency to Canadian dollars. The change in reporting currency is to better reflect the business of Cenovus, and it allows for increased comparability to the Company's peers. In implementing this change, the Company has followed the requirements of the Canadian Institute of Chartered Accountants ("CICA") Emerging Issues Committee ("EIC") Abstract 130 ("EIC-130"), "Translation Method When the Reporting Currency Differs from the Measurement Currency or there is a Change in the Reporting Currency."

With the change in reporting currency, all comparative financial information being presented has been restated from U.S. dollars to Canadian dollars to reflect the Company's financial statements as if they had been historically reported in Canadian dollars.

4. CHANGES IN ACCOUNTING POLICIES AND PRACTICES

Business Combinations

On January 1, 2010, Cenovus early adopted CICA Handbook Section 1582, "Business Combinations," which replaces CICA Handbook Section 1581 of the same name. The new 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 did not impact the Company's interim Consolidated Financial Statements for the period ended June 30, 2010. However, the adoption of this new standard will impact the accounting treatment of future business combinations.

Consolidated Financial Statements and Non-controlling Interests

In conjunction with the early adoption of CICA Handbook Section 1582, the Company was also required to early adopt CICA Handbook Sections 1601, "Consolidated Financial Statements" and 1602, "Non-controlling Interests" effective January 1, 2010. These sections replace the former consolidated financial statement standard, CICA Handbook Section 1600, "Consolidated Financial Statements." Section 1601 establishes the requirements for the preparation of the consolidated financial statements and Section 1602 establishes the accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. Section 1602 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 early adoption of these standards did not have a material impact on the Company's interim Consolidated Financial Statements for the period ended June 30, 2010. These standards along with CICA Handbook section 1582 above are converged with International Financial Reporting Standards (see Note 5).

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

All amounts in C\$ millions, unless otherwise indicated

For the period ended June 30, 2010

4. CHANGES IN ACCOUNTING POLICIES AND PRACTICES (continued)

Reclassification

Certain information provided for prior years has been reclassified to conform to the presentation adopted in 2010.

5. 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 interim Consolidated Financial Statements is not reasonably determinable at this time.

6. DIVESTITURES

For the six months ended June 30, 2010, total proceeds received from the divestiture of assets were \$144 million (2009-\$3 million).

7. INTEREST, NET

For the period ended June 30, (C\$ millions)	Three Months Ended		Six Months Ended	
	2010	2009	2010	2009
Interest Expense-Long-Term Debt	57	51	115	97
Interest Expense-Other	46	53	91	108
Interest Income	(37)	(47)	(75)	(103)
	66	57	131	102

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

8. FOREIGN EXCHANGE (GAIN) LOSS, NET

For the period ended June 30, (C\$ millions)	Three Months Ended		Six Months Ended	
	2010	2009	2010	2009
Unrealized Foreign Exchange (Gain) Loss on:				
Translation of U.S. dollar debt issued from Canada	158	(185)	50	(118)
Translation of U.S. dollar Partnership Contribution Receivable issued from Canada	(132)	295	(56)	186
Other	5	50	5	39
Unrealized Foreign Exchange (Gain) Loss	31	160	(1)	107
Realized Foreign Exchange (Gain) Loss	(3)	(17)	2	(16)
	28	143	1	91

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

All amounts in C\$ millions, unless otherwise indicated

For the period ended June 30, 2010

9. INCOME TAXES

The provision for income taxes is as follows:

For the period ended June 30, (C\$ millions)	Three Months Ended		Six Months Ended	
	2010	2009	2010	2009
Current				
Canada	15	169	30	257
United States	-	(18)	-	(8)
Total Current Tax	15	151	30	249
Future	(4)	(81)	96	(105)
	11	70	126	144

10. INVENTORIES

As at (C\$ millions)	June 30, 2010	December 31, 2009
Product		
Upstream Canada	182	267
Downstream Refining	606	589
Parts and Supplies	21	19
	809	875

11. PARTNERSHIP CONTRIBUTION RECEIVABLE AND PAYABLE

In relation to the creation and activities of the integrated oil business venture with ConocoPhillips, the following represent Cenovus's 50 percent share of amounts receivable and payable:

Partnership Contribution Receivable

As at (C\$ millions)	June 30, 2010	December 31, 2009
Current	359	345
Long-term	2,475	2,621
	2,834	2,966

Partnership Contribution Payable

As at (C\$ millions)	June 30, 2010	December 31, 2009
Current	355	340
Long-term	2,506	2,650
	2,861	2,990

In addition to the Partnership Contribution Receivable and Payable, other assets and other liabilities include equal amounts for interest bearing member loans, with no fixed repayment terms, related to the funding of refining operating and capital requirements. At June 30, 2010 these amounts were \$292 million (December 31, 2009-\$183 million).

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For the period ended June 30, 2010

12. LONG-TERM DEBT

As at (C\$ millions)	June 30, 2010	December 31, 2009
Canadian Dollar Denominated Debt		
Revolving term debt*	85	32
U.S. Dollar Denominated Debt		
Revolving term debt*	80	26
Unsecured notes	3,712	3,663
	3,792	3,689
Total Debt Principal	3,877	3,721
Debt Discounts and Transaction Costs	(56)	(65)
Current Portion of Long-Term Debt	-	-
	3,821	3,656

* Revolving term debt includes commercial paper, bankers' acceptances, Libor loans, prime rate loans and U.S. base rate loans.

Included in Cenovus's long-term debt obligations of \$3,821 million at June 30, 2010, are \$165 million in principal obligations related to the issuance of commercial paper. These amounts are fully backstopped by the Company's 3-year tranche of the revolving syndicated credit facility, which expires in November 2012 and has no repayment requirements within the next year.

At June 30, 2010, Cenovus is in compliance with all of the terms of its debt agreements.

On May 26, 2010, the Company filed a prospectus to exchange up to US\$800 million aggregate principal amount of 4.50% Senior Notes due 2014, up to US\$1,300 million aggregate principal amount of 5.70% Senior Notes due 2019 and up to US\$1,400 million aggregate principal amount of 6.75% Senior Notes due 2039 registered under the U.S. Securities Act of 1933, as amended, for any and all of its outstanding 4.50% notes, 5.70% notes and 6.75% notes, which were issued on September 18, 2009 in a transaction exempt from registration. The exchange offer was launched on May 28, 2010, was extended on June 28, 2010 and expired on June 30, 2010. All of the 4.50% notes and 6.75% notes and substantially all of the 5.70% notes were exchanged in accordance with the terms of the exchange offer.

On June 24, 2010, Cenovus filed a Canadian base shelf prospectus for unsecured medium term notes in the amount of \$1.5 billion. The Canadian shelf prospectus allows for the issuance of medium term notes in Canadian dollars or other foreign currencies from time to time in one or more offerings. Terms of the notes, including, but not limited to, interest at either fixed or floating rates and expiry dates will be determined at the date of issue. At June 30, 2010, \$1.5 billion of the shelf remains unutilized. The shelf prospectus expires in July 2012.

On July 7, 2010, Cenovus filed a U.S. base shelf prospectus for unsecured notes in the amount of US\$1.5 billion. The U.S. shelf prospectus allows for the issuance of debt securities in U.S. dollars or other foreign currencies from time to time in one or more offerings. Terms of the notes, including, but not limited to, interest at either fixed or floating rates and expiry dates will be determined at the date of issue. The shelf prospectus expires in August 2012.

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13. 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 (C\$ millions)	June 30, 2010	December 31, 2009
Asset Retirement Obligation, Beginning of Year	1,147	793
Liabilities Incurred	24	6
Liabilities Settled	(17)	(38)
Liabilities Divested	(13)	(10)
Change in Estimated Future Cash Outflows	(6)	357
Accretion Expense	40	45
Foreign Currency Translation	-	(6)
Asset Retirement Obligation, End of Period	1,175	1,147

14. 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

As at June 30, 2010	Number of Common Shares (millions)	Amount (\$ millions)
Outstanding, Beginning of Year	751.3	3,681
Common Shares Issued under Option Plans	0.5	9
Outstanding, End of Period	751.8	3,690

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 \$6,055 million reclassified as Paid in Surplus.

At June 30, 2010, there were 23 million Common Shares available for future issuance under stock option plans. There were no Preferred Shares outstanding as at June 30, 2010.

On April 21, 2010, the Company established a dividend reinvestment plan ("DRIP"). Under the DRIP, holders of Common Shares may reinvest all or a portion of the cash dividends payable on their Common Shares in additional Common Shares. At the discretion of the Company, the additional Common Shares may be issued from treasury at an average market price or purchased on the market at prevailing market rates. For the purpose of the Common Shares issued from treasury, the average market price will be calculated as 100% of the volume weighted average price of the Common Shares traded on the TSX or the NYSE during the last five trading days preceding the relevant dividend payment date. At the discretion of the board of directors of Cenovus, the treasury shares may be issued at a discount to the average market price but the discount may not exceed five percent. As at June 30, 2010, there was approximately 1.9% participation rate in the Plan and additional common shares were purchased on the market to satisfy DRIP requirements.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

All amounts in C\$ millions, unless otherwise indicated

For the period ended June 30, 2010

14. SHARE CAPITAL (continued)

Net Investment

For comparative periods, Encana's net investment in the operations of Cenovus prior to the Arrangement is presented as total Net Investment in the interim Consolidated Financial Statements. Total Net Investment consists of Owner's Net Investment and AOCI.

Option Plans

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. Options granted prior to February 17, 2010 expire after five years while options granted on February 17, 2010 or later expire after seven years. 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 16).

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:

	2010
Risk Free Rate	1.60%
Dividend Yield	2.92%
Volatility	28.21%
Cenovus's Closing Common Share Price at June 30, 2010	C\$27.40

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

All amounts in C\$ millions, unless otherwise indicated

For the period ended June 30, 2010

14. SHARE CAPITAL (continued)

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

As at June 30, 2010			
	Total Number of TSARs	Performance TSARs	Weighted Average Exercise Price (C\$)
Outstanding, Beginning of Year	22,945,337	10,462,643	27.14
Exercised – SARs	(2,034,873)	(214,794)	21.39
Exercised – Options	(101,762)	(171)	19.18
Forfeited	(1,158,079)	(975,648)	28.55
Outstanding, End of Period	19,650,623	9,272,030	27.70
Exercisable, End of Period	12,938,857	5,056,893	27.15

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\$)
20.00 to 24.99	3,353,946	-	0.64	22.95	3,340,401	-	22.95
25.00 to 29.99	10,886,466	6,379,381	2.65	26.50	6,584,780	3,567,665	26.62
30.00 to 34.99	5,226,111	2,892,649	2.58	32.82	2,926,751	1,489,228	32.79
35.00 to 39.99	104,450	-	2.91	37.17	49,635	-	37.32
40.00 to 44.99	78,150	-	2.95	42.81	36,390	-	42.71
45.00 to 49.99	1,500	-	2.89	45.56	900	-	45.56
	19,650,623	9,272,030	2.29	27.70	12,938,857	5,056,893	27.15

15. 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 (C\$ millions)	June 30, 2010	December 31, 2009
Debt	3,821	3,656
Shareholders' Equity	10,055	9,608
Total Capitalization	13,876	13,264
Debt to Capitalization ratio	28%	28%

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

All amounts in C\$ millions, unless otherwise indicated

For the period ended June 30, 2010

15. CAPITAL STRUCTURE (continued)

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

As at (C\$ millions)	June 30, 2010	December 31, 2009
Debt	3,821	3,656
Net Earnings	840	818
Add (deduct):		
Interest, net	273	244
Income tax expense	326	344
Depreciation, depletion and amortization	1,414	1,527
Accretion of asset retirement obligation	62	45
Foreign exchange (gain) loss, net	214	304
Other (income) loss, net	6	(2)
Adjusted EBITDA	3,135	3,280
Debt to Adjusted EBITDA*	1.2x	1.1x

* Calculated on a trailing 12-month basis

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 June 30, 2010, Cenovus is in compliance with all of the terms of its debt agreements.

16. COMPENSATION PLANS

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

- **Tandem Share Appreciation Rights ("TSARs")**
Tandem Share Appreciation Rights ("TSARs") are options to purchase Common Shares issued under the Cenovus Employee Stock Option Plan 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.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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For the period ended June 30, 2010

16. COMPENSATION PLANS (continued)

In accordance with the Arrangement described in Note 2, each Cenovus employee holding an original Encana long-term incentive unit of the same nature disposed of their right to Cenovus in exchange for a Cenovus Replacement unit and to Encana for an Encana Replacement unit. The terms and conditions of the Cenovus and Encana Replacement units are similar to the terms and conditions of the original Encana unit. The original exercise price of the Encana unit was apportioned to the Cenovus and Encana Replacement units based on the one day volume 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.

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:

	2010
Risk Free Rate	1.60%
Dividend Yield	2.55%
Volatility	28.40%
Encana's Common Share Price	C\$32.50

A) Tandem Share Appreciation Rights

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

As at June 30, 2010			
	Total Number of TSARs	Performance TSARs	Weighted Average Exercise Price (C\$)
TSARs – Outstanding, Beginning of Year	16,454,727	8,053,074	27.52
Granted	5,721,785	-	26.38
Exercised – SARs	(752,747)	(52,367)	20.02
Exercised – Options	(220,896)	(13,787)	20.74
Forfeited	(648,027)	(604,566)	28.52
Outstanding, End of Period	20,554,842	7,382,354	27.52
Exercisable, End of Period	8,946,087	3,749,074	27.51

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\$)
20.00 to 24.99	2,105,220	-	0.70	22.95	2,066,865	-	22.94
25.00 to 29.99	14,029,356	4,913,888	4.37	26.43	4,466,631	2,474,238	26.59
30.00 to 34.99	4,223,066	2,468,466	2.62	32.89	2,321,556	1,274,836	32.88
35.00 to 39.99	124,350	-	2.95	37.14	54,060	-	37.03
40.00 to 44.99	70,850	-	2.96	43.28	35,775	-	43.25
45.00 to 49.99	2,000	-	2.89	45.56	1,200	-	45.56
	20,554,842	7,382,354	3.62	27.52	8,946,087	3,749,074	27.51

For the six months ended June 30, 2010, Cenovus has recorded \$11 million in compensation costs related to TSARs.

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16. COMPENSATION PLANS (continued)

B) Share Appreciation Rights

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

As at June 30, 2010			
	Total Number of SARs	Performance SARs	Weighted Average Exercise Price (C\$)
SARs – Outstanding, Beginning of Year	44,657	23,932	29.38
Forfeited	(3,271)	(2,646)	29.28
Outstanding, End of Period	41,386	21,286	29.38
Exercisable, End of Period	16,226	8,246	30.42

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	24,128	10,528	3.64	26.83	6,768	2,688	26.86
30.00 to 34.99	17,258	10,758	2.63	32.96	9,458	5,558	32.96
	41,386	21,286	3.22	29.38	16,226	8,246	30.42

For the six months ended June 30, 2010, Cenovus has not recorded any significant 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 June 30, 2010			
	Total Number of TSARs	Performance TSARs	Weighted Average Exercise Price (C\$)
Replacement TSARs – Outstanding, Beginning of Year	16,356,660	8,051,692	30.46
Exercised – SARs	(1,181,346)	(112,832)	23.64
Exercised – Options	(91,320)	(45)	21.31
Forfeited	(649,495)	(612,600)	31.53
Outstanding, End of Period	14,434,499	7,326,215	31.02
Exercisable, End of Period	8,614,954	3,700,835	30.56

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\$)
20.00 to 24.99	7,650	-	3.26	23.05	2,050	-	23.11
25.00 to 29.99	9,762,041	4,860,412	2.46	28.46	6,007,921	2,426,562	28.10
30.00 to 34.99	385,110	-	1.95	32.39	280,150	-	32.29
35.00 to 39.99	4,133,648	2,465,803	2.63	36.47	2,257,393	1,274,273	36.46
40.00 to 44.99	74,200	-	3.00	42.28	31,065	-	42.19
45.00 to 49.99	69,850	-	2.96	47.92	35,175	-	47.88
50.00 to 54.99	2,000	-	2.89	50.39	1,200	-	50.39
	14,434,499	7,326,215	2.50	31.02	8,614,954	3,700,835	30.56

For the six months ended June 30, 2010, the Company has recorded a reduction of compensation costs of \$4 million related to the Encana Replacement TSARs.

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16. COMPENSATION PLANS (continued)

D) Encana Replacement Share Appreciation Rights

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

As at June 30, 2010			
	Total Number of SARs	Performance SARs	Weighted Average Exercise Price (C\$)
Encana Replacement SARs – Outstanding, Beginning of Year	44,657	23,932	32.48
Cancelled/Forfeited	(3,271)	(2,646)	32.37
Outstanding, End of Period	41,386	21,286	32.49
Exercisable, End of Period	16,226	8,246	33.63

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	21,128	10,528	3.59	29.25	5,868	2,688	29.26
30.00 to 34.99	3,000	-	3.96	32.55	900	-	32.55
35.00 to 39.99	17,258	10,758	2.63	36.44	9,458	5,558	36.44
	41,386	21,286	3.22	32.49	16,226	8,246	33.63

For the six months ended June 30, 2010, the Company has not recorded any significant compensation costs related to the Encana Replacement SARs.

E) Deferred Share Units ("DSUs")

Cenovus has in place a program whereby directors, officers and employees may receive 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.

The following table summarizes information related to the DSUs held by Cenovus employees and directors:

As at June 30, 2010	
	Outstanding DSUs
Outstanding, Beginning of Year	768,103
Granted	62,545
Granted from Annual Bonus Awards	81,117
Units in Lieu of Dividends	13,765
Outstanding, End of Period	925,530

For the six months ended June 30, 2010, the Company has recorded \$3 million in compensation costs related to DSUs.

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16. COMPENSATION PLANS (continued)

F) Performance Share Units ("PSUs")

In 2010, the Company granted Performance Share Units ("PSUs") to certain employees. PSUs are whole share units and entitle employees to receive, upon vesting, either a common share of Cenovus or a cash payment equal to the value of a Cenovus common share. The number of PSUs eligible for payment is determined over three years based on the units granted multiplied by 30% after year one, 30% after year two and 40% after year three, multiplied by a performance multiplier for each year. The multiplier is based on the Company achieving key pre-determined performance measures. PSUs vest after three years.

The following table summarizes information related to the PSUs held by Cenovus employees:

As at June 30, 2010	
	Outstanding PSUs
Outstanding, Beginning of Year	-
Granted	1,251,995
Cancelled	(15,410)
Units in Lieu of Dividends	18,910
Outstanding, End of Period	1,255,495

For the six months ended June 30, 2010, the Company has recorded \$7 million in compensation costs related to the PSUs.

17. 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 and member loans, 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.

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 Payable and member loans 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.

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For the period ended June 30, 2010

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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

As at (C\$ millions)	June 30, 2010		December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Held-for-trading:				
Cash and cash equivalents	409	409	155	155
Risk management assets	258	258	61	61
Loans and Receivables:				
Accounts receivable and accrued revenues	1,063	1,063	978	978
Partnership Contribution Receivable	2,834	2,834	2,966	2,966
Member loans receivable	292	292	183	183
Financial Liabilities				
Held-for-trading:				
Risk management liabilities	12	12	74	74
Other Financial Liabilities:				
Accounts payable and accrued liabilities	1,547	1,547	1,574	1,574
Long-term debt	3,821	4,286	3,656	3,964
Partnership Contribution Payable	2,861	2,861	2,990	2,990
Member loans payable	292	292	183	183

B) Risk Management Assets and Liabilities

For comparative purposes, under the terms of the Arrangement, 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 (C\$ millions)	June 30, 2010	December 31, 2009
Risk Management		
Current asset	196	60
Long-term asset	62	1
	258	61
Risk Management		
Current liability	8	70
Long-term liability	4	4
	12	74
Net Risk Management Asset (Liability)	246	(13)

Of the \$246 million net risk management asset balance at June 30, 2010, an asset of \$108 million relates to the contract with Encana.

Summary of Unrealized Risk Management Positions

As at (C\$ millions)	June 30, 2010			December 31, 2009		
	Risk Management			Risk Management		
	Asset	Liability	Net	Asset	Liability	Net
Commodity Prices						
Natural Gas	199	-	199	53	-	53
Crude Oil	59	3	56	8	66	(58)
Power	-	9	(9)	-	8	(8)
Total Fair Value	258	12	246	61	74	(13)

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All amounts in C\$ millions, unless otherwise indicated

For the period ended June 30, 2010

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Net Fair Value Methodologies Used to Calculate Unrealized Risk Management Positions

As at (C\$ millions)	June 30, 2010	December 31, 2009
Prices actively quoted	254	6
Prices sourced from observable data or market corroboration	(8)	(19)
Total Fair Value	246	(13)

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 June 30, 2010

As at June 30, 2010 (C\$ millions)	Notional Volumes	Term	Average Price	Fair Value
Crude Oil Contracts				
Fixed Price Contracts				
WTI NYMEX Fixed Price	29,100 bbls/d	2010	US\$78.91/bbl	11
WTI NYMEX Fixed Price	5,000 bbls/d	2010	C\$89.65/bbl	7
WTI NYMEX Fixed Price	5,000 bbls/d	2011	US\$90.98/bbl	22
WTI NYMEX Fixed Price	6,000 bbls/d	2011	C\$92.77/bbl	17
Other Financial Positions *				(1)
Crude Oil Fair Value Position				56
Natural Gas Contracts				
Fixed Price Contracts				
NYMEX Fixed Price	444 MMcf/d	2010	US\$6.12/Mcf	114
NYMEX Fixed Price	351 MMcf/d	2011	US\$5.82/Mcf	65
NYMEX Fixed Price	60 MMcf/d	2012	US\$6.49/Mcf	19
Basis Contracts **				
Canada		2010		1
Canada		2011-2013		-
Natural Gas Fair Value Position				199
Power Purchase Contracts				
Power Fair Value Position				(9)

* Other financial positions are part of ongoing operations to market the Company's production.

**Cenovus has entered into swaps to protect against widening natural gas price differentials between production areas in Canada and various sales points. These basis swaps are priced using both fixed prices and basis prices determined as a percentage of NYMEX.

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

For the period ended June 30, (C\$ millions)	Realized Gain (Loss)			
	Three Months Ended		Six Months Ended	
	2010	2009	2010	2009
Gross Revenues	81	349	109	652
Less: Royalties	-	-	-	-
Net Revenues	81	349	109	652
Operating Expenses and Other	10	(2)	7	(33)
Gain (Loss) on Risk Management	91	347	116	619

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For the period ended June 30, 2010

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

For the period ended June 30, (C\$ millions)	Unrealized Gain (Loss)			
	Three Months Ended		Six Months Ended	
	2010	2009	2010	2009
Gross Revenues	20	(294)	261	(189)
Less: Royalties	-	-	-	-
Net Revenues	20	(294)	261	(189)
Operating Expenses and Other	2	(3)	(2)	(22)
Gain (Loss) on Risk Management	22	(297)	259	(211)

Reconciliation of Unrealized Risk Management Positions from January 1 to June 30,

(C\$ millions)	2010		2009
	Fair Value	Total Unrealized Gain (Loss)	Total Unrealized Gain (Loss)
Fair Value of Contracts, Beginning of Period	(13)		
Change in Fair Value of Contracts in Place at Beginning of Period and Contracts Entered into During the Period	375	375	408
Fair Value of Contracts Realized During the Period	(116)	(116)	(619)
Fair Value of Contracts, End of Period	246	259	(211)

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 June 30, 2010 as follows:

(C\$ millions)	10% Price Increase	10% Price Decrease
Natural gas price	(125)	125
Crude oil price	(45)	45
Power price	3	(3)

C) Risks Associated with Financial Assets and Liabilities

Commodity Price Risk

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

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

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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

All amounts in C\$ millions, unless otherwise indicated

For the period ended June 30, 2010

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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 June 30, 2010, over 97 percent (December 31, 2009–98 percent) of Cenovus's accounts receivable and financial derivative credit exposures are with investment grade counterparties.

At June 30, 2010, Cenovus had three counterparties whose net settlement position individually account for more than 10 percent (December 31, 2009–three counterparties, including Encana) 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 and the member loans receivable is the total carrying value. The current concentration of this credit risk resides with Encana and A rated or higher counterparties. 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 15, Cenovus targets a Debt to Capitalization ratio of 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. It is Cenovus's intention to maintain investment grade credit ratings on its senior unsecured debt.

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, undrawn credit facilities, commercial paper and availability under its shelf prospectuses. At June 30, 2010, Cenovus had \$2.3 billion available on its committed bank credit facility and \$1.5 billion in unused capacity under its Canadian shelf prospectus, the availability of which is dependent on market conditions. On July 7, 2010 an additional US\$1.5 billion in unused capacity was made available under Cenovus's U.S. shelf prospectus, the availability of which is dependent on market conditions.

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	1,547	-	-	-	1,547
Risk Management Liabilities	8	4	-	-	12
Long-Term Debt*	218	600	1,263	5,673	7,754
Partnership Contribution Payable*	518	1,037	1,037	908	3,500
Member Loans Payable	-	292	-	-	292

* Principal and interest, including current portion

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For the period ended June 30, 2010

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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 and reporting currency is Canadian dollars. All amounts are reported in Canadian dollars, unless otherwise indicated.

As disclosed in Note 8, 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 June 30, 2010, Cenovus had US\$3,575 million in U.S. dollar debt issued from Canada (US\$3,525 million at December 31, 2009) and US\$2,672 million related to the U.S. dollar Partnership Contribution Receivable (US\$2,834 million at December 31, 2009). A \$0.01 change in the U.S. to Canadian dollar exchange rate would have resulted in a \$9 million change in foreign exchange (gain) loss at June 30, 2010 (2009-\$10 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.

For the six months ended June 30, 2010, the increase or decrease in net earnings for each one percent change in interest rates on floating rate debt amounts to \$1 million (2009-\$3 million).

18. PER SHARE AMOUNTS

For the period ended June 30,	Three Months Ended		Six Months Ended	
	2010	2009	2010	2009
Weighted Average Common Shares Outstanding – Basic	751.7	751.0	751.6	750.8
Effect of Dilutive Securities	0.1	0.4	0.2	0.6
Weighted Average Common Shares Outstanding – Diluted	751.8	751.4	751.8	751.4

Since Cenovus's shares were issued pursuant to the Arrangement with Encana to create the Company, the per share amounts disclosed for the comparative period are based on Encana's common shares.

19. 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.