



Cenovus Energy Inc.

Consolidated Financial Statements

For the Year Ended December 31, 2016

(Canadian Dollars)

CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

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REPORT OF MANAGEMENT

Management's Responsibility for the Consolidated Financial Statements

The accompanying Consolidated Financial Statements of Cenovus Energy Inc. are the responsibility of Management. The Consolidated Financial Statements have been prepared by Management in Canadian dollars in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board 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 five 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 on at least a quarterly basis to review and approve interim Consolidated Financial Statements and Management's Discussion and Analysis prior to their public 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, 2016. In making its assessment, Management has used the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") framework in Internal Control – Integrated Framework (2013) 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 December 31, 2016.

PricewaterhouseCoopers LLP, an independent firm of Chartered Professional 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, 2016, as stated in their Report of Independent Registered Public Accounting Firm dated February 15, 2017. PricewaterhouseCoopers LLP has provided such opinions.

/s/ Brian C. Ferguson

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

February 15, 2017

/s/ Ivor M. Ruste

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders of Cenovus Energy Inc.

We have audited the accompanying Consolidated Balance Sheets of Cenovus Energy Inc. as of December 31, 2016 and December 31, 2015 and the Consolidated Statements of Earnings (Loss), Comprehensive Income (Loss), Shareholders' Equity and Cash Flows for each of the years in the three-year period ended December 31, 2016. We also have audited Cenovus Energy Inc.'s internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control – Integrated Framework (2013) issued by the COSO. Management is responsible for these Consolidated Financial Statements, 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 Report of Management. Our responsibility is to express an opinion on these Consolidated Financial Statements and an opinion on Cenovus Energy Inc.'s internal control over financial reporting based on our integrated audits.

We conducted our audits 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 the Consolidated Financial Statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the Consolidated Financial Statements included examining, on a test basis, evidence supporting the amounts and disclosures in the Consolidated Financial Statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall Consolidated Financial Statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Consolidated Financial Statements referred to above present fairly, in all material respects, the financial position of Cenovus Energy Inc. as of December 31, 2016 and December 31, 2015 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2016 in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board. Also, in our opinion, Cenovus Energy Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control – Integrated Framework (2013) issued by COSO.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Professional Accountants
Calgary, Alberta, Canada

February 15, 2017

CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)

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

	Notes	2016	2015	2014
Revenues	1			
Gross Sales		12,282	13,207	20,107
Less: Royalties		148	143	465
		12,134	13,064	19,642
Expenses	1			
Purchased Product		6,978	7,374	10,955
Transportation and Blending		1,901	2,043	2,477
Operating		1,683	1,839	2,045
Production and Mineral Taxes		12	18	46
(Gain) Loss on Risk Management	31	343	(461)	(662)
Depreciation, Depletion and Amortization	9,16	1,498	2,114	1,946
Goodwill Impairment	9	-	-	497
Exploration Expense	9,15	2	138	86
General and Administrative		326	335	379
Finance Costs	5	492	482	445
Interest Income		(52)	(28)	(33)
Foreign Exchange (Gain) Loss, Net	6	(198)	1,036	411
Research Costs		36	27	15
(Gain) Loss on Divestiture of Assets	7	6	(2,392)	(156)
Other (Income) Loss, Net	8	34	2	(4)
Earnings (Loss) Before Income Tax		(927)	537	1,195
Income Tax Expense (Recovery)	10	(382)	(81)	451
Net Earnings (Loss)		(545)	618	744
Net Earnings (Loss) Per Share (\$)	11			
Basic and Diluted		(0.65)	0.75	0.98

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

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

	Notes	2016	2015	2014
Net Earnings (Loss)		(545)	618	744
Other Comprehensive Income (Loss), Net of Tax	26			
<i>Items That Will Not be Reclassified to Profit or Loss:</i>				
Actuarial Gain (Loss) Relating to Pension and Other Post-Retirement Benefits		(3)	20	(18)
<i>Items That May be Reclassified to Profit or Loss:</i>				
Available for Sale Financial Assets – Change in Fair Value		(2)	6	-
Available for Sale Financial Assets – Reclassified to Profit or Loss		1	-	-
Foreign Currency Translation Adjustment		(106)	587	215
Total Other Comprehensive Income (Loss), Net of Tax		(110)	613	197
Comprehensive Income (Loss)		(655)	1,231	941

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

As at December 31,
(\$ millions)

	Notes	2016	2015
Assets			
Current Assets			
Cash and Cash Equivalents	12	3,720	4,105
Accounts Receivable and Accrued Revenues	13	1,838	1,251
Income Tax Receivable		6	6
Inventories	14	1,237	810
Risk Management	31,32	21	301
Total Current Assets		6,822	6,473
Exploration and Evaluation Assets	1,15	1,585	1,575
Property, Plant and Equipment, Net	1,16	16,426	17,335
Risk Management	31,32	3	-
Income Tax Receivable		124	90
Other Assets	8,18	56	76
Goodwill	1,19	242	242
Total Assets		25,258	25,791
Liabilities and Shareholders' Equity			
Current Liabilities			
Accounts Payable and Accrued Liabilities	20	2,266	1,702
Income Tax Payable		112	133
Risk Management	31,32	293	23
Total Current Liabilities		2,671	1,858
Long-Term Debt	21	6,332	6,525
Risk Management	31,32	22	7
Decommissioning Liabilities	22	1,847	2,052
Other Liabilities	23	211	142
Deferred Income Taxes	10	2,585	2,816
Total Liabilities		13,668	13,400
Shareholders' Equity		11,590	12,391
Total Liabilities and Shareholders' Equity		25,258	25,791
Commitments and Contingencies	34		

See accompanying Notes to Consolidated Financial Statements.

Approved by the Board of Directors

/s/ Michael A. Grandin

Michael A. Grandin
Director
Cenovus Energy Inc.

/s/ Colin Taylor

Colin Taylor
Director
Cenovus Energy Inc.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(\$ millions)

	Share Capital (Note 25)	Paid in Surplus (Note 25)	Retained Earnings	AOI ⁽¹⁾ (Note 26)	Total
As at December 31, 2013	3,857	4,219	1,660	210	9,946
Net Earnings	-	-	744	-	744
Other Comprehensive Income	-	-	-	197	197
Total Comprehensive Income	-	-	744	197	941
Common Shares Issued Under Stock Option Plans	32	-	-	-	32
Stock-Based Compensation Expense	-	72	-	-	72
Dividends on Common Shares	-	-	(805)	-	(805)
As at December 31, 2014	3,889	4,291	1,599	407	10,186
Net Earnings	-	-	618	-	618
Other Comprehensive Income	-	-	-	613	613
Total Comprehensive Income	-	-	618	613	1,231
Common Shares Issued for Cash	1,463	-	-	-	1,463
Common Shares Issued Pursuant to Dividend Reinvestment Plan	182	-	-	-	182
Stock-Based Compensation Expense	-	39	-	-	39
Dividends on Common Shares	-	-	(710)	-	(710)
As at December 31, 2015	5,534	4,330	1,507	1,020	12,391
Net Earnings (Loss)	-	-	(545)	-	(545)
Other Comprehensive Income (Loss)	-	-	-	(110)	(110)
Total Comprehensive Income (Loss)	-	-	(545)	(110)	(655)
Stock-Based Compensation Expense	-	20	-	-	20
Dividends on Common Shares	-	-	(166)	-	(166)
As at December 31, 2016	5,534	4,350	796	910	11,590

(1) Accumulated Other Comprehensive Income (Loss).

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	Notes	2016	2015	2014
Operating Activities				
Net Earnings (Loss)		(545)	618	744
Depreciation, Depletion and Amortization	9,16	1,498	2,114	1,946
Goodwill Impairment	9	-	-	497
Exploration Expense	9,15	2	138	86
Deferred Income Taxes	10	(209)	(655)	359
Unrealized (Gain) Loss on Risk Management	31	554	195	(596)
Unrealized Foreign Exchange (Gain) Loss	6	(189)	1,097	411
(Gain) Loss on Divestiture of Assets	7	6	(2,392)	(156)
Current Tax on Divestiture of Assets	7	-	391	-
Unwinding of Discount on Decommissioning Liabilities	5,22	130	126	120
Onerous Contract Provisions, Net of Cash Paid		53	-	-
Other Asset Impairments	8	30	-	-
Other		93	59	68
Net Change in Other Assets and Liabilities		(91)	(107)	(135)
Net Change in Non-Cash Working Capital		(471)	(110)	182
Cash From Operating Activities		861	1,474	3,526
Investing Activities				
Capital Expenditures – Exploration and Evaluation Assets	15	(67)	(138)	(279)
Capital Expenditures – Property, Plant and Equipment	16	(967)	(1,576)	(2,779)
Acquisition	17	-	(84)	-
Proceeds From Divestiture of Assets	7	8	3,344	276
Current Tax on Divestiture of Assets	7	-	(391)	-
Net Change in Investments and Other		(1)	3	(1,583)
Net Change in Non-Cash Working Capital		(52)	(270)	15
Cash From (Used in) Investing Activities		(1,079)	888	(4,350)
Net Cash Provided (Used) Before Financing Activities		(218)	2,362	(824)
Financing Activities				
Net Issuance (Repayment) of Short-Term Borrowings		-	(25)	(18)
Common Shares Issued, Net of Issuance Costs	25	-	1,449	-
Common Shares Issued Under Stock Option Plans		-	-	28
Dividends Paid on Common Shares	11	(166)	(528)	(805)
Other		(2)	(2)	(2)
Cash From (Used in) Financing Activities		(168)	894	(797)
Foreign Exchange Gain (Loss) on Cash and Cash Equivalents Held in Foreign Currency		1	(34)	52
Increase (Decrease) in Cash and Cash Equivalents		(385)	3,222	(1,569)
Cash and Cash Equivalents, Beginning of Year		4,105	883	2,452
Cash and Cash Equivalents, End of Year		3,720	4,105	883

Supplementary Cash Flow Information

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See accompanying Notes to Consolidated Financial Statements.

1. DESCRIPTION OF BUSINESS AND SEGMENTED DISCLOSURES

Cenovus Energy Inc. and its subsidiaries, (together "Cenovus" or the "Company") are in the business of developing, producing and marketing crude oil, natural gas liquids ("NGLs") and natural gas in Canada with marketing activities and refining operations in the United States ("U.S.").

Cenovus is incorporated under the *Canada Business Corporations Act* and its shares are listed on the Toronto ("TSX") and New York ("NYSE") stock exchanges. The executive and registered office is located at 2600, 500 Centre Street S.E., Calgary, Alberta, Canada, T2G 1A6. Information on the Company's basis of preparation for these Consolidated Financial Statements is found in Note 2.

Management has determined the operating segments based on information regularly reviewed for the purposes of decision making, allocating resources and assessing operational performance by Cenovus's chief operating decision makers. The Company evaluates the financial performance of its operating segments primarily based on operating margin. The Company's reportable segments are:

- **Oil Sands**, which includes the development and production of bitumen and natural gas in northeast Alberta. Cenovus's bitumen assets include Foster Creek, Christina Lake and Narrows Lake as well as projects in the early stages of development, such as Grand Rapids and Telephone Lake. Certain of the Company's operated oil sands properties, notably Foster Creek, Christina Lake and Narrows Lake, are jointly owned with ConocoPhillips, an unrelated U.S. public company.
- **Conventional**, which includes the development and production of conventional crude oil, NGLs and natural gas in Alberta and Saskatchewan, including the heavy oil assets at Pelican Lake, the carbon dioxide enhanced oil recovery project at Weyburn and emerging tight oil opportunities.
- **Refining and Marketing**, which is responsible for transporting, selling and refining crude oil into petroleum and chemical products. Cenovus jointly owns two refineries in the U.S. with the operator Phillips 66, an unrelated U.S. public company. In addition, Cenovus owns and operates a crude-by-rail terminal in Alberta. This segment coordinates Cenovus's marketing and transportation initiatives to optimize product mix, delivery points, transportation commitments and customer diversification. The marketing of crude oil and natural gas sourced from Canada, including physical product sales that settle in the U.S., is considered to be undertaken by a Canadian business. U.S. sourced crude oil and natural gas purchases and sales are attributed to the U.S.
- **Corporate and Eliminations**, which primarily includes unrealized gains and losses recorded on derivative financial instruments, gains and losses on divestiture of assets, as well as other Cenovus-wide costs for general and administrative, financing activities and research costs. As financial instruments are settled, the 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 Corporate and Eliminations segment is attributed to Canada, with the exception of unrealized risk management gains and losses, which have been attributed to the country in which the transacting entity resides.

The following tabular financial information presents the segmented information first by segment, then by product and geographic location.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

All amounts in \$ millions, unless otherwise indicated

For the year ended December 31, 2016

A) Results of Operations – Segment and Operational Information

For the years ended December 31,	Oil Sands			Conventional			Refining and Marketing		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
Revenues									
Gross Sales	2,929	3,030	5,036	1,267	1,709	3,225	8,439	8,805	12,658
Less: Royalties	9	29	236	139	114	229	-	-	-
	2,920	3,001	4,800	1,128	1,595	2,996	8,439	8,805	12,658
Expenses									
Purchased Product	-	-	-	-	-	-	7,325	7,709	11,767
Transportation and Blending	1,721	1,815	2,131	186	230	346	-	-	-
Operating	501	531	639	444	561	709	742	754	703
Production and Mineral Taxes	-	-	-	12	18	46	-	-	-
(Gain) Loss on Risk Management	(179)	(404)	(38)	(58)	(209)	(1)	26	(43)	(27)
Operating Margin ⁽¹⁾	877	1,059	2,068	544	995	1,896	346	385	215
Depreciation, Depletion and Amortization	655	697	625	567	1,148	1,082	211	191	156
Goodwill Impairment	-	-	-	-	-	497	-	-	-
Exploration Expense	2	67	4	-	71	82	-	-	-
Segment Income (Loss)	220	295	1,439	(23)	(224)	235	135	194	59

(1) Previously labelled Operating Cash Flow.

For the years ended December 31,	Corporate and Eliminations			Consolidated		
	2016	2015	2014	2016	2015	2014
Revenues						
Gross Sales	(353)	(337)	(812)	12,282	13,207	20,107
Less: Royalties	-	-	-	148	143	465
	(353)	(337)	(812)	12,134	13,064	19,642
Expenses						
Purchased Product	(347)	(335)	(812)	6,978	7,374	10,955
Transportation and Blending	(6)	(2)	-	1,901	2,043	2,477
Operating	(4)	(7)	(6)	1,683	1,839	2,045
Production and Mineral Taxes	-	-	-	12	18	46
(Gain) Loss on Risk Management	554	195	(596)	343	(461)	(662)
Depreciation, Depletion and Amortization	65	78	83	1,498	2,114	1,946
Goodwill Impairment	-	-	-	-	-	497
Exploration Expense	-	-	-	2	138	86
Segment Income (Loss)	(615)	(266)	519	(283)	(1)	2,252
General and Administrative	326	335	379	326	335	379
Finance Costs	492	482	445	492	482	445
Interest Income	(52)	(28)	(33)	(52)	(28)	(33)
Foreign Exchange (Gain) Loss, Net	(198)	1,036	411	(198)	1,036	411
Research Costs	36	27	15	36	27	15
(Gain) Loss on Divestiture of Assets	6	(2,392)	(156)	6	(2,392)	(156)
Other (Income) Loss, Net	34	2	(4)	34	2	(4)
	644	(538)	1,057	644	(538)	1,057
Earnings (Loss) Before Income Tax				(927)	537	1,195
Income Tax Expense (Recovery)				(382)	(81)	451
Net Earnings (Loss)				(545)	618	744

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
All amounts in \$ millions, unless otherwise indicated
For the year ended December 31, 2016

B) Financial Results by Upstream Product

For the years ended December 31,	Crude Oil ⁽¹⁾								
	Oil Sands			Conventional			Total		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
Revenues									
Gross Sales	2,911	3,000	4,963	936	1,239	2,456	3,847	4,239	7,419
Less: Royalties	9	29	233	125	103	217	134	132	450
	2,902	2,971	4,730	811	1,136	2,239	3,713	4,107	6,969
Expenses									
Transportation and Blending	1,720	1,814	2,130	170	213	326	1,890	2,027	2,456
Operating	486	511	615	287	381	505	773	892	1,120
Production and Mineral Taxes	-	-	-	12	16	37	12	16	37
(Gain) Loss on Risk Management	(179)	(400)	(38)	(60)	(157)	4	(239)	(557)	(34)
Operating Margin ⁽²⁾	875	1,046	2,023	402	683	1,367	1,277	1,729	3,390

For the years ended December 31,	Natural Gas								
	Oil Sands			Conventional			Total		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
Revenues									
Gross Sales	16	22	67	321	450	744	337	472	811
Less: Royalties	-	-	3	14	11	12	14	11	15
	16	22	64	307	439	732	323	461	796
Expenses									
Transportation and Blending	1	1	1	16	17	20	17	18	21
Operating	11	15	17	152	175	198	163	190	215
Production and Mineral Taxes	-	-	-	-	2	9	-	2	9
(Gain) Loss on Risk Management	-	(4)	-	2	(52)	(5)	2	(56)	(5)
Operating Margin ⁽²⁾	4	10	46	137	297	510	141	307	556

For the years ended December 31,	Other								
	Oil Sands			Conventional			Total		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
Revenues									
Gross Sales	2	8	6	10	20	25	12	28	31
Less: Royalties	-	-	-	-	-	-	-	-	-
	2	8	6	10	20	25	12	28	31
Expenses									
Transportation and Blending	-	-	-	-	-	-	-	-	-
Operating	4	5	7	5	5	6	9	10	13
Production and Mineral Taxes	-	-	-	-	-	-	-	-	-
(Gain) Loss on Risk Management	-	-	-	-	-	-	-	-	-
Operating Margin ⁽²⁾	(2)	3	(1)	5	15	19	3	18	18

For the years ended December 31,	Total Upstream								
	Oil Sands			Conventional			Total		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
Revenues									
Gross Sales	2,929	3,030	5,036	1,267	1,709	3,225	4,196	4,739	8,261
Less: Royalties	9	29	236	139	114	229	148	143	465
	2,920	3,001	4,800	1,128	1,595	2,996	4,048	4,596	7,796
Expenses									
Transportation and Blending	1,721	1,815	2,131	186	230	346	1,907	2,045	2,477
Operating	501	531	639	444	561	709	945	1,092	1,348
Production and Mineral Taxes	-	-	-	12	18	46	12	18	46
(Gain) Loss on Risk Management	(179)	(404)	(38)	(58)	(209)	(1)	(237)	(613)	(39)
Operating Margin ⁽²⁾	877	1,059	2,068	544	995	1,896	1,421	2,054	3,964

(1) Includes NGLs.

(2) Previously labelled Operating Cash Flow.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

All amounts in \$ millions, unless otherwise indicated
For the year ended December 31, 2016

C) Exploration and Evaluation Assets, Property, Plant and Equipment, Goodwill and Total Assets

As at December 31,	E&E ⁽¹⁾		PP&E ⁽²⁾		Goodwill		Total Assets	
	2016	2015	2016	2015	2016	2015	2016	2015
Oil Sands	1,564	1,560	8,798	8,907	242	242	11,112	11,069
Conventional	21	15	3,080	3,720	-	-	3,196	3,830
Refining and Marketing	-	-	4,273	4,398	-	-	6,613	5,844
Corporate and Eliminations	-	-	275	310	-	-	4,337	5,048
Consolidated	1,585	1,575	16,426	17,335	242	242	25,258	25,791

(1) Exploration and Evaluation ("E&E") assets.

(2) Property, Plant and Equipment ("PP&E").

D) Geographical Information

For the years ended December 31,	Revenues		
	2016	2015	2014
Canada	6,106	6,264	10,139
United States	6,028	6,800	9,503
Consolidated	12,134	13,064	19,642

As at December 31,	Non-Current Assets ⁽³⁾	
	2016	2015
Canada	14,130	14,921
United States	4,179	4,307
Consolidated	18,309	19,228

(3) Includes E&E, PP&E, goodwill and other assets.

Export Sales

Sales of crude oil, natural gas and NGLs produced or purchased in Canada that have been delivered to customers outside of Canada were \$974 million (2015 - \$870 million; 2014 - \$821 million).

Major Customers

In connection with the marketing and sale of Cenovus's own and purchased crude oil, natural gas and refined products for the year ended December 31, 2016, Cenovus had three customers (2015 - three; 2014 - three) that individually accounted for more than 10 percent of its consolidated gross sales. Sales to these customers, recognized as major international energy companies with investment grade credit ratings, were approximately \$4,742 million, \$1,623 million and \$1,400 million, respectively (2015 - \$4,647 million, \$1,705 million and \$1,545 million; 2014 - \$7,210 million, \$2,668 million and \$2,316 million), which are included in all of the Company's segments.

E) Capital Expenditures ⁽⁴⁾

For the years ended December 31,	2016	2015	2014
Capital			
Oil Sands	604	1,185	1,986
Conventional	171	244	840
Refining and Marketing	220	248	163
Corporate	31	37	62
Capital Investment	1,026	1,714	3,051
Acquisition Capital			
Oil Sands	11	3	15
Conventional	-	1	3
Refining and Marketing	-	83	-
Total Capital Expenditures	1,037	1,801	3,069

(4) Includes expenditures on PP&E and E&E.

2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

In these Consolidated Financial Statements, unless otherwise indicated, all dollars are expressed in Canadian dollars. All references to C\$ or \$ are to Canadian dollars and references to US\$ are to U.S. dollars.

These Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). These Consolidated Financial Statements have been prepared in compliance with IFRS.

These Consolidated Financial Statements have been prepared on a historical cost basis, except as detailed in the Company's accounting policies disclosed in Note 3.

These Consolidated Financial Statements were approved by the Board of Directors on February 15, 2017.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A) Principles of Consolidation

The Consolidated Financial Statements include the accounts of Cenovus and its subsidiaries. Subsidiaries are entities over which the Company has control. Subsidiaries are consolidated from the date of acquisition of control and continue to be consolidated until the date that there is a loss of control. All intercompany transactions, balances, and unrealized gains and losses from intercompany transactions are eliminated on consolidation.

Interests in joint arrangements are classified as either joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangement. Joint operations arise when the Company has rights to the assets and obligations for the liabilities of the arrangement. Substantially all of the Company's Oil Sands and Refining activities are conducted through two joint operations, FCCL Partnership ("FCCL") and WRB Refining LP ("WRB"), and accordingly, the accounts reflect the Company's share of the assets, liabilities, revenues and expenses.

B) Foreign Currency Translation

Functional and Presentation Currency

The Company's presentation currency is Canadian dollars. The accounts of the Company's foreign operations that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency at period-end exchange rates for assets and liabilities, and using average rates over the period for revenues and expenses. Translation gains and losses relating to the foreign operations are recognized in other comprehensive income ("OCI") as cumulative translation adjustments.

When the Company disposes of an entire interest in a foreign operation or loses control, joint control, or significant influence over a foreign operation, the foreign currency gains or losses accumulated in OCI related to the foreign operation are recognized in net earnings. When the Company disposes of part of an interest in a foreign operation that continues to be a subsidiary, a proportionate amount of gains and losses accumulated in OCI is allocated between controlling and non-controlling interests.

Transactions and Balances

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

C) Revenue Recognition

Revenues associated with the sales of Cenovus's crude oil, natural gas, NGLs, and petroleum and refined products are recognized when the significant risks and rewards of ownership have been transferred to the customer, the sales price and costs can be measured reliably and it is probable that the economic benefits will flow to the Company. This is generally met when title passes from the Company to its customer. Revenues from crude oil and natural gas production represent the Company's share, net of royalty payments to governments and other mineral interest owners.

Revenue from fee-for-service hydrocarbon trans-loading services is recognized in the period the service is provided.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Purchases and sales of products that are entered into in contemplation of each other with the same counterparty are recorded on a net basis. Revenues associated with the services provided as agent are recorded as the services are provided.

D) Transportation and Blending

The costs associated with the transportation of crude oil, natural gas and NGLs, including the cost of diluent used in blending, are recognized when the product is sold.

E) Exploration Expense

Costs incurred prior to obtaining the legal right to explore (pre-exploration costs) are expensed in the period in which they are incurred as exploration expense.

Costs incurred after the legal right to explore is obtained, are initially capitalized. If it is determined that the field/project/area is not technically feasible and commercially viable or if the Company decides not to continue the exploration and evaluation activity, the unrecoverable accumulated costs are expensed as exploration expense.

F) Employee Benefit Plans

The Company provides employees with a pension plan that includes either a defined contribution or defined benefit component and an other post-employment benefit plan ("OPEB").

Pension expense for the defined contribution pension is recorded as the benefits are earned.

The cost of the defined benefit pension and OPEB plans are actuarially determined using the projected unit credit method. The amount recognized in other liabilities on the Consolidated Balance Sheets for the defined benefit pension and OPEB plans is the present value of the defined benefit obligation less the fair value of plan assets. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

Changes in the defined benefit obligation from service costs, net interest and remeasurements are recognized as follows:

- Service costs, including current service costs, past service costs, gains and losses on curtailments, and settlements, are recorded with pension benefit costs.
- Net interest is calculated by applying the same discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit asset or liability measured. Interest expense and interest income on net post-employment benefit liabilities and assets are recorded with pension benefit costs in operating, and general and administrative expenses, as well as PP&E and E&E assets.
- Remeasurements, composed of actuarial gains and losses, the effect of changes to the asset ceiling (excluding interest) and the return on plan assets (excluding interest income), are charged or credited to equity in OCI in the period in which they arise. Remeasurements are not reclassified to net earnings in subsequent periods.

Pension benefit costs are recorded in operating, and general and administrative expenses, as well as PP&E and E&E assets, corresponding to where the associated salaries of the employees rendering the service are recorded.

G) Income Taxes

Income taxes comprise current and deferred taxes. Income taxes are provided for on a non-discounted basis at amounts expected to be paid using the tax rates and laws that have been enacted or substantively enacted at the Consolidated Balance Sheet date.

Cenovus follows the liability method of accounting for income taxes, where deferred income taxes are recorded for the effect of any temporary difference between the accounting and income tax basis of an asset or liability, using the substantively enacted income tax rates expected to apply when the assets are realized or liabilities are settled. Deferred income tax balances are adjusted to reflect changes in income tax rates that are substantively enacted with the adjustment being recognized in net earnings in the period that the change occurs, except when it relates to items charged or credited directly to equity or OCI, in which case the deferred income tax is also recorded in equity or OCI, respectively.

Deferred income tax is provided on temporary differences arising from investments in subsidiaries except in the case where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future or when distributions can be made without incurring income taxes.

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Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred income tax assets and liabilities are only offset where they arise within the same entity and tax jurisdiction. Deferred income tax assets and liabilities are presented as non-current.

H) Net Earnings per Share Amounts

Basic net earnings per share is computed by dividing net earnings by the weighted average number of common shares outstanding during the period. Diluted net earnings per share is calculated giving effect to the potential dilution that would occur if stock options or other contracts to issue common shares were exercised or converted to common shares. The treasury stock method is used to determine the dilutive effect of stock options and other dilutive instruments. The treasury stock method assumes that proceeds received from the exercise of in-the-money stock options are used to repurchase common shares at the average market price. For those contracts that may be settled in cash or in shares at the holder's option, the more dilutive of cash settlement and share settlement is used in calculating diluted earnings per share.

I) Cash and Cash Equivalents

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

J) Inventories

Product inventories are valued at the lower of cost and net realizable value on a first-in, first-out or weighted average cost basis. The cost of inventory includes all costs incurred in the normal course of business to bring each product to its present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less any expected selling costs. If the carrying amount exceeds net realizable value, a write-down is recognized. The write-down may be reversed in a subsequent period if circumstances which caused it no longer exist and the inventory is still on hand.

K) Exploration and Evaluation Assets

Costs incurred after the legal right to explore an area has been obtained, and before technical feasibility and commercial viability of the field/project/area have been established, are capitalized as E&E assets. These costs include license acquisition, geological and geophysical, drilling, sampling, decommissioning and other directly attributable internal costs. E&E assets are not depreciated and are carried forward until technical feasibility and commercial viability of the field/project/area is established or the assets are determined to be impaired. E&E costs are subject to regular technical, commercial and Management review to confirm the continued intent to develop the resources.

Once technical feasibility and commercial viability have been established, the carrying value of the E&E asset is tested for impairment. The carrying value, net of any impairment loss, is then reclassified as PP&E.

Any gains or losses from the divestiture of E&E assets are recognized in net earnings.

L) Property, Plant and Equipment

General

PP&E is stated at cost less accumulated depreciation, depletion and amortization ("DD&A"), and net of any impairment losses. Expenditures related to renewals or betterments that improve the productive capacity or extend the life of an asset are capitalized. Maintenance and repairs are expensed as incurred. Land is not depreciated.

Any gains or losses from the divestiture of PP&E are recognized in net earnings.

Development and Production Assets

Development and production assets are capitalized on an area-by-area basis and include all costs associated with the development and production of crude oil and natural gas properties, as well as any E&E expenditures incurred in finding reserves of crude oil or natural gas transferred from E&E assets. Capitalized costs include directly attributable internal costs, decommissioning liabilities and, for qualifying assets, borrowing costs directly associated with the acquisition of, the exploration for, and the development of crude oil and natural gas reserves.

Costs accumulated within each area are depleted using the unit-of-production method based on estimated proved reserves determined using forward prices and costs. For the purpose of this calculation, natural gas is converted to crude oil on an energy equivalent basis. Costs subject to depletion include estimated future costs to be incurred in developing proved reserves.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Exchanges of development and production assets are measured at fair value unless the transaction lacks commercial substance or the fair value of neither the asset received, nor the asset given up, can be reliably measured. When fair value is not used, the carrying amount of the asset given up is used as the cost of the asset acquired.

Other Upstream Assets

Other upstream assets include pipelines and information technology assets used to support the upstream business. These assets are depreciated on a straight-line basis over their useful lives of three to 35 years.

Refining Assets

The initial acquisition costs of refining PP&E are capitalized when incurred. Costs include the cost of constructing or otherwise acquiring the equipment or facilities, the cost of installing the asset and making it ready for its intended use, the associated decommissioning costs and, for qualifying assets, borrowing costs.

Refining assets are depreciated on a straight-line basis over the estimated service life of each component of the refinery. The major components are depreciated as follows:

- Land improvements and buildings 25 to 40 years
- Office equipment and vehicles 3 to 20 years
- Refining equipment 5 to 35 years

The residual value, method of amortization and the useful life of each component are reviewed annually and adjusted on a prospective basis, if appropriate.

Other Assets

Costs associated with the crude-by-rail terminal, office furniture, fixtures, leasehold improvements, information technology and aircraft are carried at cost and depreciated on a straight-line basis over the estimated service lives of the assets, which range from three to 40 years.

The residual value, method of amortization and the useful lives of the assets are reviewed annually and adjusted on a prospective basis, if appropriate.

M) Impairment

Non-Financial Assets

PP&E and E&E assets are reviewed separately for indicators of impairment quarterly or when facts and circumstances suggest that the carrying amount may exceed its recoverable amount. Goodwill is tested for impairment at least annually.

If indicators of impairment exist, the recoverable amount of the cash-generating unit ("CGU") is estimated as the greater of value-in-use ("VIU") and fair value less costs of disposal ("FVLCOD"). VIU is estimated as the present value of the future cash flows expected to arise from the continuing use of a CGU or an asset. FVLCOD is determined by estimating the discounted after-tax future net cash flows. For Cenovus's upstream assets, FVLCOD is based on the discounted after-tax cash flows of reserves and resources using forward prices and costs, consistent with Cenovus's independent qualified reserves evaluators ("IQREs"), and may consider an evaluation of comparable asset transactions.

If the recoverable amount of the CGU is less than the carrying amount, an impairment loss is recognized. An impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amounts of the other assets in the CGU. Goodwill impairments are not reversed.

E&E assets are allocated to a related CGU containing development and production assets for the purposes of testing for impairment. Goodwill is allocated to the CGUs to which it contributes to the future cash flows.

Impairment losses on PP&E and E&E assets are recognized in the Consolidated Statements of Earnings as additional DD&A and exploration expense, respectively.

Impairment losses recognized in prior periods, other than goodwill impairments, are assessed at each reporting date for any indicators that the impairment losses may no longer exist or may have decreased. In the event that an impairment loss reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the carrying amount does not exceed the amount that would have been determined had no impairment loss been recognized on the asset in prior periods. The amount of the reversal is recognized in net earnings.

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Financial Assets

At each reporting date, the Company assesses whether there are any indicators that its financial assets are impaired. An impairment loss is only recognized if there is objective evidence of impairment, the loss event has an impact on future cash flows and the loss can be reliably estimated.

Evidence of impairment may include default or delinquency by a debtor or indicators that the debtor may enter bankruptcy. For equity securities, a significant or prolonged decline in the fair value of the security below cost is evidence that the assets are impaired.

An impairment loss on a financial asset carried at amortized cost is calculated as the difference between the amortized cost and the present value of the future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. Impairment losses on financial assets carried at amortized cost are reversed through net earnings in subsequent periods if the amount of the loss decreases.

N) Leases

Leases in which substantially all of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

Leases where the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. At inception, a leased asset within PP&E and a corresponding lease obligation are recognized. The leased asset is depreciated over the shorter of the estimated useful life of the asset or the lease term.

O) Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method of accounting in which the identifiable assets acquired, liabilities assumed and any non-controlling interest are recognized and measured at their fair value at the date of acquisition. Any excess of the purchase price plus any non-controlling interest over the fair value of the net assets acquired is recognized as goodwill. Any deficiency of the purchase price over the fair value of the net assets acquired is credited to net earnings.

At acquisition, goodwill is allocated to each of the CGUs to which it relates. Subsequent measurement of goodwill is at cost less any accumulated impairment losses.

P) Provisions

General

A provision is recognized if, as a result of a past event, the Company has a present obligation, legal or constructive, that can be estimated reliably, and it is more likely than not that an outflow of economic benefits will be required to settle the obligation. Where applicable, provisions are determined by discounting the expected future cash flows at a pre-tax credit-adjusted rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognized as a finance cost in the Consolidated Statements of Earnings.

Decommissioning Liabilities

Decommissioning liabilities include those legal or constructive obligations where the Company will be required to retire tangible long-lived assets such as producing well sites, crude oil and natural gas processing facilities, refining facilities and the crude-by-rail terminal. The amount recognized is the present value of estimated future expenditures required to settle the obligation using a credit-adjusted risk-free rate. A corresponding asset equal to the initial estimate of the liability is capitalized as part of the cost of the related long-lived asset. Changes in the estimated liability resulting from revisions to expected timing or future decommissioning costs are recognized as a change in the decommissioning liability and the related long-lived asset. The amount capitalized in PP&E is depreciated over the useful life of the related asset.

Actual expenditures incurred are charged against the accumulated liability.

Q) Share Capital

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any income taxes.

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R) Stock-Based Compensation

Cenovus has a number of stock-based compensation plans which include stock options with associated net settlement rights ("NSRs"), stock options with associated tandem stock appreciation rights ("TSARs"), performance share units ("PSUs"), restricted share units ("RSUs") and deferred share units ("DSUs"). Stock-based compensation costs are recorded in general and administrative expense, or E&E and PP&E when directly related to exploration or development activities.

Net Settlement Rights

NSRs are accounted for as equity instruments, which are measured at fair value on the grant date using the Black-Scholes-Merton valuation model and are not revalued at each reporting date. The fair value is recognized as stock-based compensation costs over the vesting period, with a corresponding increase recorded as paid in surplus in Shareholders' Equity. On exercise, the cash consideration received by the Company and the associated paid in surplus are recorded as share capital.

Tandem Stock Appreciation Rights

TSARs are accounted for as liability instruments, which are measured at fair value at each period end using the Black-Scholes-Merton valuation model. The fair value is recognized as stock-based compensation costs over the vesting period. When options are settled for cash, the liability is reduced by the cash settlement paid. When options are settled for common shares, the cash consideration received by the Company and the previously recorded liability associated with the option are recorded as share capital.

Performance, Restricted and Deferred Share Units

PSUs, RSUs and DSUs are accounted for as liability instruments and are measured at fair value based on the market value of Cenovus's common shares at each period end. The fair value is recognized as stock-based compensation costs over the vesting period. Fluctuations in the fair values are recognized as stock-based compensation costs in the period they occur.

S) Financial Instruments

The Company's financial assets include cash and cash equivalents, accounts receivable and accrued revenues, risk management assets, investments in the equity of private companies and long-term receivables. The Company's financial liabilities include accounts payable and accrued liabilities, risk management liabilities, short-term borrowings and long-term debt.

Financial instruments are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are not offset unless the Company has the current legal right to offset and intends to settle on a net basis or settle the asset and liability simultaneously. A financial asset is derecognized when the rights to receive cash flows from the asset have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership. A financial liability is derecognized when the obligation is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same counterparty with substantially different terms, or the terms of an existing liability are substantially modified, this exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the carrying amounts of the liabilities is recognized in the Consolidated Statements of Earnings.

Financial instruments are classified as either "fair value through profit and loss", "loans and receivables", "held-to-maturity investments", "available for sale financial assets" or "financial liabilities measured at amortized cost". The Company determines the classification of its financial instruments at initial recognition. Financial instruments are initially measured at fair value except in the case of "financial liabilities measured at amortized cost", which are initially measured at fair value net of directly attributable transaction costs.

As required by IFRS, the Company characterizes its fair value measurements into a three-level hierarchy depending on the degree to which the inputs are observable, as follows:

- Level 1 inputs are quoted prices in active markets for identical assets and liabilities;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Fair Value through Profit or Loss

Financial assets and financial liabilities at "fair value through profit or loss" are either "held-for-trading" or have been "designated at fair value through profit or loss". In both cases, the financial assets and financial liabilities are measured at fair value with changes in fair value recognized in net earnings.

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Risk management assets and liabilities are derivative financial instruments classified as "held-for-trading" unless designated for hedge accounting. Derivative instruments that do not qualify as hedges, or are not designated as hedges, are recorded using mark-to-market accounting whereby instruments are recorded in the Consolidated Balance Sheets as either an asset or liability with changes in fair value recognized in net earnings as a (gain) loss on risk management. The estimated fair value of all derivative instruments is based on quoted market prices or, in their absence, third-party market indications and forecasts.

Derivative financial instruments are used to manage economic exposure to market risks relating to commodity prices, foreign currency exchange rates and interest rates. Derivative financial instruments are not used for speculative purposes. Policies and procedures are in place with respect to required documentation and approvals for the use of derivative financial instruments. Where specific financial instruments are executed, the Company assesses, both at the time of purchase and on an ongoing basis, whether the financial instrument used in the particular transaction is effective in offsetting changes in fair values or cash flows of the transaction.

Loans and Receivables

"Loans and receivables" are financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, these assets are measured at amortized cost at the settlement date using the effective interest method of amortization. "Loans and receivables" comprise cash and cash equivalents, accounts receivable and accrued revenues, and long-term receivables. Gains and losses on "loans and receivables" are recognized in net earnings when the "loans and receivables" are derecognized or impaired.

Available for Sale Financial Assets

"Available for sale financial assets" are measured at fair value, with changes in fair value recognized in OCI. When an active market is non-existent, fair value is determined using valuation techniques. When fair value cannot be reliably measured, such assets are carried at cost. Available for sale financial assets comprise investments in the equity of private companies that the Company does not control or have significant influence over.

Financial Liabilities Measured at Amortized Cost

These financial liabilities are measured at amortized cost at the settlement date using the effective interest method of amortization. Financial liabilities measured at amortized cost comprise accounts payable and accrued liabilities, short-term borrowings and long-term debt. Long-term debt transaction costs, premiums and discounts are capitalized within long-term debt or as a prepayment and amortized using the effective interest method.

T) Reclassification

Certain information provided for prior years has been reclassified to conform to the presentation adopted in 2016.

U) Recent Accounting Pronouncements

Amended Accounting Standard Adopted

The Company adopted the following new amendment:

Liabilities Arising From Financing Activities

The Company has early adopted the disclosure requirements in "*Disclosure Initiative (Amendments to IAS 7)*" ("IAS 7") before the mandatory effective date of January 1, 2017. Additional disclosures for changes in liabilities arising from financing activities has been included in Note 21. As allowed by IAS 7, comparative information has not been presented.

New Accounting Standards and Interpretations not yet Adopted

A number of new accounting standards, amendments to accounting standards and interpretations are effective for annual periods beginning on or after January 1, 2017 and have not been applied in preparing the Consolidated Financial Statements for the year ended December 31, 2016. The standards applicable to the Company are as follows and will be adopted on their respective effective dates:

Leases

On January 13, 2016, the IASB issued IFRS 16, "*Leases*" ("IFRS 16"), which requires entities to recognize lease assets and lease obligations on the balance sheet. For lessees, IFRS 16 removes the classification of leases as either operating leases or finance leases, effectively treating all leases as finance leases. Certain short-term leases (less than 12 months) and leases of low-value assets are exempt from the requirements, and may continue to be treated as operating leases.

Lessors will continue with a dual lease classification model. Classification will determine how and when a lessor will recognize lease revenue, and what assets would be recorded.

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IFRS 16 is effective for years beginning on or after January 1, 2019, with early adoption permitted if IFRS 15 "Revenue From Contracts With Customers" has been adopted. The standard may be applied retrospectively or using a modified retrospective approach. The modified retrospective approach does not require restatement of prior period financial information as it recognizes the cumulative effect as an adjustment to opening retained earnings and applies the standard prospectively. It is anticipated that the adoption of IFRS 16 will have a material impact on the Company's Consolidated Balance Sheets due to material operating lease commitments as disclosed in Note 34. The Company plans to apply IFRS 16 initially on January 1, 2019; however, the transition approach on adoption has not yet been determined.

Revenue Recognition

On May 28, 2014, the IASB issued IFRS 15, "Revenue From Contracts With Customers" ("IFRS 15") replacing IAS 11, "Construction Contracts", IAS 18, "Revenue" and several revenue-related interpretations. IFRS 15 establishes a single revenue recognition framework that applies to contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. Disclosure requirements have also been expanded.

IFRS 15 is effective for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The standard may be applied retrospectively or using a modified retrospective approach. The Company is currently evaluating the impact of adopting IFRS 15 on the Consolidated Financial Statements and plans to adopt the standard for its year ended December 31, 2018.

Financial Instruments

On July 24, 2014, the IASB issued the final version of IFRS 9, "Financial Instruments" ("IFRS 9") to replace IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39").

IFRS 9 introduces a single approach to determine whether a financial asset is measured at amortized cost or fair value and replaces the multiple rules in IAS 39. The approach is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The IAS 39 measurement categories for financial assets will be replaced by fair value through profit or loss, fair value through other comprehensive income and amortized cost. Based on its preliminary assessment, the Company does not believe the change in classification will have a material impact on the Consolidated Financial Statements.

IFRS 9 retains most of the IAS 39 requirements for financial liabilities. However, where the fair value option is applied to financial liabilities, the change in fair value resulting from an entity's own credit risk is recorded in OCI rather than net earnings, unless this creates an accounting mismatch. Cenovus currently does not designate any financial liabilities as fair value through profit or loss.

A new expected credit loss model for calculating impairment on financial assets replaces the incurred loss impairment model used in IAS 39. The new model will result in more timely recognition of expected credit losses. The Company does not expect the change in the impairment model to have a material impact on the Consolidated Financial Statements.

In addition, IFRS 9 includes a simplified hedge accounting model, aligning hedge accounting more closely with risk management. Cenovus does not currently apply hedge accounting.

IFRS 9 is effective for years beginning on or after January 1, 2018. Early adoption is permitted if IFRS 9 is adopted in its entirety at the beginning of a fiscal period. The Company plans to adopt IFRS 9 for its year ended December 31, 2018.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The timely preparation of the Consolidated Financial Statements in accordance with IFRS requires that Management make estimates and assumptions, and use judgment regarding the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities at the date of the Consolidated Financial Statements, and the reported amounts of revenues and expenses during the period. Such estimates primarily relate to unsettled transactions and events as of the date of the Consolidated Financial Statements. The estimated fair value of financial assets and liabilities, by their very nature, are subject to measurement uncertainty. Accordingly, actual results may differ from estimated amounts as future confirming events occur.

A) Critical Judgments in Applying Accounting Policies

Critical judgments are those judgments made by Management in the process of applying accounting policies that have the most significant effect on the amounts recorded in the Company's Consolidated Financial Statements.

Joint Arrangements

Cenovus holds a 50 percent ownership interest in two jointly controlled entities, FCCL and WRB. The classification of these joint arrangements as either a joint operation or a joint venture requires judgment. It was determined that Cenovus has the rights to the assets and obligations for the liabilities of FCCL and WRB.

As a result, these joint arrangements are classified as joint operations and the Company's share of the assets, liabilities, revenues and expenses are recorded in the Consolidated Financial Statements.

In determining the classification of its joint arrangements under IFRS 11, "Joint Arrangements", the Company considered the following:

- The intention of the transaction creating FCCL and WRB was to form an integrated North American heavy oil business. The integrated business was structured, initially on a tax neutral basis, through two partnerships due to the assets residing in different tax jurisdictions. Partnerships are "flow-through" entities which have a limited life.
- The partnership agreements require the partners (Cenovus and ConocoPhillips or Phillips 66 or respective subsidiaries) to make contributions if funds are insufficient to meet the obligations or liabilities of the partnerships. The past and future development of FCCL and WRB is dependent on funding from the partners by way of partnership notes payable and loans. The partnerships do not have any third-party borrowings.
- FCCL operates like most typical western Canadian working interest relationships where the operating partner takes product on behalf of the participants. WRB has a very similar structure modified only to account for the operating environment of the refining business.
- Cenovus and Phillips 66, as operators, either directly or through wholly-owned subsidiaries, provide marketing services, purchase necessary feedstock, and arrange for transportation and storage on the partners' behalf as the agreements prohibit the partnerships from undertaking these roles themselves. In addition, the partnerships do not have employees and, as such, are not capable of performing these roles.
- In each arrangement, output is taken by one of the partners, indicating that the partners have rights to the economic benefits of the assets and the obligation for funding the liabilities of the arrangements.

Exploration and Evaluation Assets

The application of the Company's accounting policy for E&E expenditures requires judgment in determining whether it is likely that future economic benefit exists when activities have not reached a stage where technical feasibility and commercial viability can be reasonably determined. Factors such as drilling results, future capital programs, future operating expenses, as well as estimated reserves and resources are considered. In addition, Management uses judgment to determine when E&E assets are reclassified to PP&E. In making this determination, various factors are considered, including the existence of reserves, and whether the appropriate approvals have been received from regulatory bodies and the Company's internal approval process.

Identification of CGUs

CGUs are defined as the lowest level of integrated assets for which there are separately identifiable cash flows that are largely independent of cash flows from other assets or groups of assets. The classification of assets and allocation of corporate assets into CGUs requires significant judgment and interpretation. Factors considered in the classification include the integration between assets, shared infrastructures, the existence of common sales points, geography, geologic structure, and the manner in which Management monitors and makes decisions about its operations. The recoverability of the Company's upstream, refining, crude-by-rail and corporate assets are assessed at the CGU level. As such, the determination of a CGU could have a significant impact on impairment losses and reversals.

B) Key Sources of Estimation Uncertainty

Critical accounting estimates are those estimates that require Management to make particularly subjective or complex judgments about matters that are inherently uncertain. Estimates and underlying assumptions are reviewed on an ongoing basis and any revisions to accounting estimates are recorded in the period in which the estimates are revised. The following are the key assumptions about the future and other key sources of estimation at the end of the reporting period that changes to could result in a material adjustment to the carrying amount of assets and liabilities within the next financial year.

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Crude Oil and Natural Gas Reserves

There are a number of inherent uncertainties associated with estimating crude oil and natural gas reserves. Reserves estimates are dependent upon variables including the recoverable quantities of hydrocarbons, the cost of the development of the required infrastructure to recover the hydrocarbons, production costs, estimated selling price of the hydrocarbons produced, royalty payments and taxes. Changes in these variables could significantly impact the reserves estimates which would affect the impairment test and DD&A expense of the Company's crude oil and natural gas assets in the Oil Sands and Conventional segments. The Company's crude oil and natural gas reserves are evaluated annually and reported to the Company by its IQREs.

Recoverable Amounts

Determining the recoverable amount of a CGU or an individual asset requires the use of estimates and assumptions, which are subject to change as new information becomes available. For the Company's upstream assets, these estimates include forward commodity prices, expected production volumes, quantity of reserves and resources, discount rates, future development and operating expenses, and income tax rates. Recoverable amounts for the Company's refining assets and crude-by-rail terminal use assumptions such as throughput, forward commodity prices, operating expenses, transportation capacity, supply and demand conditions and income tax rates. Changes in assumptions used in determining the recoverable amount could affect the carrying value of the related assets.

Decommissioning Costs

Provisions are recorded for the future decommissioning and restoration of the Company's upstream crude oil and natural gas assets, refining assets and crude-by-rail terminal at the end of their economic lives. Management uses judgment to assess the existence and to estimate the future liability. The actual cost of decommissioning and restoration is uncertain and cost estimates may change in response to numerous factors including changes in legal requirements, technological advances, inflation and the timing of expected decommissioning and restoration. In addition, Management determines the appropriate discount rate at the end of each reporting period. This discount rate, which is credit-adjusted, is used to determine the present value of the estimated future cash outflows required to settle the obligation and may change in response to numerous market factors.

Income Tax Provisions

Tax regulations and legislation and the interpretations thereof in the various jurisdictions in which Cenovus operates are subject to change. There are usually a number of tax matters under review; therefore, income taxes are subject to measurement uncertainty.

Deferred income tax assets are recorded to the extent that it is probable that the deductible temporary differences will be recoverable in future periods. The recoverability assessment involves a significant amount of estimation including an evaluation of when the temporary differences will reverse, an analysis of the amount of future taxable earnings, the availability of cash flow to offset the tax assets when the reversal occurs and the application of tax laws. There are some transactions for which the ultimate tax determination is uncertain. To the extent that assumptions used in the recoverability assessment change, there may be a significant impact on the Consolidated Financial Statements of future periods.

5. FINANCE COSTS

For the years ended December 31,	2016	2015	2014
Interest Expense – Short-Term Borrowings and Long-Term Debt	341	328	285
Unwinding of Discount on Decommissioning Liabilities (Note 22)	130	126	120
Other	21	28	18
Interest Expense – Partnership Contribution Payable ⁽¹⁾	-	-	22
	492	482	445

(1) In 2014, Cenovus repaid the remaining principal and accrued interest due under the Partnership Contribution Payable.

6. FOREIGN EXCHANGE (GAIN) LOSS, NET

For the years ended December 31,	2016	2015	2014
Unrealized Foreign Exchange (Gain) Loss on Translation of:			
U.S. Dollar Debt Issued From Canada	(196)	1,064	458
Other	7	33	(47)
Unrealized Foreign Exchange (Gain) Loss	(189)	1,097	411
Realized Foreign Exchange (Gain) Loss	(9)	(61)	-
	(198)	1,036	411

7. DIVESTITURES

In the third quarter of 2016, the Company completed the sale of land to an unrelated third party for cash proceeds of \$8 million, resulting in a loss of \$5 million. In the second quarter of 2016, the Company sold equipment at a loss of \$1 million. These assets, related liabilities and results of operations were reported in the Conventional segment.

In the third quarter of 2015, the Company completed the sale of Heritage Royalty Limited Partnership ("HRP"), a wholly-owned subsidiary, to a third party for gross cash proceeds of \$3.3 billion, resulting in a gain of \$2.4 billion. HRP was a royalty business consisting of royalty interest and mineral fee title lands in Alberta, Saskatchewan and Manitoba. These assets, related liabilities and results of operations were reported in the Conventional segment.

The divestiture gave rise to a taxable gain for which the Company recognized a current tax expense of \$391 million. The majority of HRP's assets had been acquired at a nominal cost and, as such, had minimal benefit from tax depreciation in prior years. For this reason, the current tax expense associated with the divestiture was specifically identifiable; therefore, it has been classified as an investing activity in the Consolidated Statements of Cash Flows.

In the first quarter of 2015, the Company divested an office building, recording a gain of \$16 million.

In 2014, the Company completed the sale of certain Wainwright properties to an unrelated third party for net proceeds of \$234 million, resulting in a gain of \$137 million. The Company also completed the sale of certain Bakken properties to an unrelated third party for net proceeds of \$35 million, resulting in a gain of \$16 million. Other divestitures in 2014 included the sale of certain non-core properties, resulting in a gain of \$4 million. These assets and results of operations were reported in the Conventional segment.

8. OTHER (INCOME) LOSS, NET

As at December 31, 2016, due to the Government of Canada's decision to reject the Northern Gateway Pipeline project, the Company has written off \$23 million of capitalized costs associated with its funding support unit in Northern Gateway Pipeline. In addition, \$7 million of expected costs associated with termination have been recorded.

In 2016, \$7 million (2015 – \$nil) of certain investments in private equity companies were written off.

9. IMPAIRMENT CHARGES AND REVERSALS

A) CGU Net Impairments

The review of the Company's PP&E and E&E assets for indicators of impairment as at December 31, 2016 provided evidence that a portion of the impairment losses previously recorded should be reversed.

2016 Net Upstream Impairments

As at December 31, 2016, the recoverable value of the Northern Alberta CGU was estimated to be \$1.1 billion. Earlier in 2016 and 2015, impairment losses of \$380 million and \$184 million, respectively, were recorded primarily due to a decline in long-term heavy crude oil prices and a slowing of the development plan. In the fourth quarter of 2016, the Company reversed \$400 million of impairment losses, net of the DD&A that would have been recorded had no impairments been recorded. The reversal arose due to the increase in the CGU's estimated recoverable amount caused by an average reduction in expected future operating costs of five percent and lower future development costs, partially offset by a decline in estimated reserves. The impairment losses and subsequent reversal were recorded as DD&A in the Conventional segment. The Northern Alberta CGU includes the Pelican Lake and Elk Point producing assets and other emerging assets in the exploration and evaluation stage.

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As at December 31, 2016, the recoverable amount of the Suffield CGU was estimated to be \$548 million. Earlier in 2016, an impairment loss of \$65 million was recognized due to lower long-term forward natural gas and heavy crude oil prices. In the fourth quarter of 2016, the Company reversed the full amount of the impairment losses, net of the DD&A that would have been recorded had no impairment been recorded (\$62 million). The reversal arose due to a decline in expected future royalties increasing the estimated recoverable amount of the CGU. The impairment loss and the subsequent reversal were recorded as DD&A in the Conventional segment. The Suffield CGU includes production of natural gas and heavy crude oil in Alberta on the Canadian Forces Base.

For the purpose of impairment testing, goodwill is allocated to the CGU to which it relates. There were no goodwill impairments for the twelve months ended December 31, 2016.

Key Assumptions

The recoverable amounts of Cenovus's upstream CGUs were determined based on FVLCOD or an evaluation of comparable asset transactions. The fair values for producing properties were calculated based on discounted after-tax cash flows of proved and probable reserves using forward prices and cost estimates, prepared by Cenovus's IQREs (Level 3). Key assumptions in the determination of future cash flows from reserves include crude oil and natural gas prices, costs to develop and the discount rate. All reserves have been evaluated as at December 31, 2016 by the IQREs.

Crude Oil and Natural Gas Prices

The forward prices as at December 31, 2016, used to determine future cash flows from crude oil and natural gas reserves were:

	2017	2018	2019	2020	2021	Average Annual Increase Thereafter
WTI (US\$/barrel) ⁽¹⁾	55.00	58.70	62.40	69.00	75.80	2.0%
WCS (C\$/barrel) ⁽²⁾	53.70	58.20	61.90	66.50	71.00	2.0%
AECO (C\$/Mcf) ^{(3) (4)}	3.40	3.15	3.30	3.60	3.90	2.2%

(1) West Texas Intermediate ("WTI") crude oil.

(2) Western Canadian Select ("WCS") crude oil blend.

(3) Alberta Energy Company ("AECO") natural gas.

(4) Assumes gas heating value of one million British Thermal Units per thousand cubic feet.

Discount and Inflation Rates

Evaluations of discounted future cash flows are initiated using the discount rate of 10 percent and inflation is estimated at two percent, which is common industry practice and used by Cenovus's IQREs in preparing the reserves report. Based on the individual characteristics of the CGU, other economic and operating factors are also considered, which may increase or decrease the implied discount rate.

Sensitivities

The estimated recoverable value of the Northern Alberta CGU is sensitive to discount rate and forward price estimates over the life of the reserves. Changes to these assumptions, assuming all other variables remained constant, would have had the following impact on the 2016 net impairment of the Northern Alberta CGU:

	One Percent Increase in the Discount Rate	One Percent Decrease in the Discount Rate ⁽¹⁾	Five Percent Increase in the Forward Price Estimates ⁽¹⁾	Five Percent Decrease in the Forward Price Estimates
Increase (Decrease) to Net Impairment of PP&E	132	(106)	(106)	270

(1) The \$106 million represents the remaining impairment loss that could be reversed as at December 31, 2016.

2015 Impairments

As at December 31, 2015, the Company determined that the carrying amount of the Northern Alberta CGU exceeded its recoverable amount, resulting in an impairment loss of \$184 million. The impairment was recorded as additional DD&A in the Conventional segment. Future cash flows for the CGU declined due to lower forward crude oil prices, a decline in reserves estimates and a slowing down of the development plan. This was partially offset by lower future development and operating costs.

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The recoverable amount was determined using FVLCO. The fair value of producing properties was calculated based on discounted after-tax cash flows of proved and probable reserves using forward prices and cost estimates, prepared by Cenovus's IQREs (Level 3). Future cash flows were estimated using a two percent inflation rate and discounted using a rate of 10 percent. As at December 31, 2015, the recoverable amount of the Northern Alberta CGU was estimated to be approximately \$1.5 billion.

There were no goodwill impairments for the twelve months ended December 31, 2015.

2014 Impairments

As at December 31, 2014, the Company determined that the carrying amount of the Northern Alberta CGU exceeded its recoverable amount and the full amount of the impairment was attributed to goodwill. An impairment loss of \$497 million was recorded as goodwill impairment on the Consolidated Statements of Earnings. The operating results of the CGU are included in the Conventional segment. Future cash flows for the CGU declined due to lower crude oil prices and a slowing down of the Pelican Lake development plan.

The recoverable amount was determined using FVLCO. The fair value for producing properties was calculated based on discounted after-tax cash flows of proved and probable reserves using forward prices and cost estimates, prepared by Cenovus's IQREs (Level 3). The fair value of E&E assets was determined using market comparable transactions (Level 3). Future cash flows were estimated using a two percent inflation rate and discounted using a rate of 11 percent. To assess reasonableness, an evaluation of fair value based on comparable asset transactions was also completed. As at December 31, 2014, the recoverable amount of the Northern Alberta CGU was estimated to be \$2.3 billion.

B) Asset Impairments

Exploration and Evaluation Assets

In 2016, \$2 million of previously capitalized E&E costs were deemed not to be technically feasible and commercially viable. This impairment loss was recorded as exploration expense in the Oil Sands segment.

In 2015, \$138 million of previously capitalized E&E costs were deemed not to be technically feasible and commercially viable, and were recorded as exploration expense. This impairment loss included \$67 million and \$71 million within the Oil Sands and Conventional segments, respectively.

In 2014, \$82 million of previously capitalized E&E costs were deemed not to be technically feasible and commercially viable, and were recorded as exploration expense in the Conventional segment. In addition, \$4 million of costs related to the expiry of leases in the Borealis CGU were recorded as exploration expense in the Oil Sands segment.

Property, Plant and Equipment, Net

In the fourth quarter of 2016, the Company recorded an impairment loss of \$20 million primarily related to equipment that was written down to its recoverable amount. This impairment was recorded as additional DD&A in the Conventional segment.

In the third quarter of 2016, the Company recorded an impairment loss of \$16 million related to preliminary engineering costs associated with a project that was cancelled and equipment that was written down to its recoverable amount. This impairment loss was recorded as additional DD&A in the Oil Sands segment. In the second quarter of 2016, \$4 million of leasehold improvements were written off. This impairment loss was recorded as additional DD&A in the Corporate and Eliminations segment.

In 2015, the Company impaired a sulphur recovery facility for \$16 million, which was recorded as additional DD&A in the Oil Sands segment. The Company did not have future plans for the assets and did not believe it would recover the carrying amount through a sale.

In 2014, the Company impaired equipment for \$52 million. The Company did not have future plans for the equipment and did not believe it would recover the carrying amount through a sale. The asset was written down to FVLCO. Additionally, a minor natural gas property was shut-in and abandonment commenced, resulting in an impairment of \$13 million. These impairments were recorded as additional DD&A in the Conventional segment.

10. INCOME TAXES

The provision for income taxes is:

For the years ended December 31,	2016	2015	2014
Current Tax			
Canada	(174)	586	94
United States	1	(12)	(2)
Total Current Tax Expense (Recovery)	(173)	574	92
Deferred Tax Expense (Recovery)	(209)	(655)	359
	(382)	(81)	451

In 2016, the Company recorded a current tax recovery due to the carryback of losses for income tax purposes and prior year adjustments.

In 2015, the Company recorded a deferred tax recovery of \$415 million arising from an adjustment to the tax basis of the refining assets. The increase in tax basis was a result of the Company's partner recognizing a taxable gain on its interest in WRB which, due to an election filed with the U.S. tax authorities, was added to the tax basis of WRB's assets. The Government of Alberta enacted a two percent increase in the corporate income tax rate effective July 1, 2015, increasing the statutory tax rate for the year to 26.1 percent. As a result, the Company's deferred income tax liability increased by \$161 million for the year ended December 31, 2015.

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

For the years ended December 31,	2016	2015	2014
Earnings (Loss) Before Income Tax	(927)	537	1,195
Canadian Statutory Rate	27.0%	26.1%	25.2%
Expected Income Tax (Recovery)	(250)	140	301
Effect of Taxes Resulting From:			
Foreign Tax Rate Differential	(46)	(41)	(43)
Non-Deductible Stock-Based Compensation	5	7	13
Non-Taxable Capital (Gains) Losses	(26)	137	74
Unrecognized Capital (Gains) Losses Arising From Unrealized Foreign Exchange	(26)	135	50
Adjustments Arising From Prior Year Tax Filings	(46)	(55)	(16)
Derecognition (Recognition) of Capital Losses	-	(149)	(9)
(Recognition) of U.S. Tax Basis	-	(415)	-
Change in Statutory Rate	-	161	-
Foreign Exchange Gains (Losses) not Included in Net Earnings	-	-	(13)
Goodwill Impairment	-	-	125
Other	7	(1)	(31)
Total Tax (Recovery)	(382)	(81)	451
Effective Tax Rate	41.2%	(15.1)%	37.7%

The analysis of deferred income tax liabilities and deferred income tax assets is as follows:

As at December 31,	2016	2015
Deferred Income Tax Liabilities		
Deferred Tax Liabilities to be Settled Within 12 Months	6	100
Deferred Tax Liabilities to be Settled After More Than 12 Months	3,147	3,051
	3,153	3,151
Deferred Income Tax Assets		
Deferred Tax Assets to be Recovered Within 12 Months	(117)	(42)
Deferred Tax Assets to be Recovered After More Than 12 Months	(451)	(293)
	(568)	(335)
Net Deferred Income Tax Liability	2,585	2,816

The deferred income tax assets and liabilities to be settled within 12 months represents Management's estimate of the timing of the reversal of temporary differences and may not correlate to the current income tax expense of the subsequent year.

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The movement in deferred income tax liabilities and assets, without taking into consideration the offsetting of balances within the same tax jurisdiction, is:

Deferred Income Tax Liabilities	Property, Plant and Equipment	Timing of Partnership Items	Risk Management	Other	Total
As at December 31, 2014	3,106	167	121	41	3,435
Charged (Credited) to Earnings	(246)	(167)	(39)	(24)	(476)
Charged (Credited) to OCI	192	-	-	-	192
As at December 31, 2015	3,052	-	82	17	3,151
Charged (Credited) to Earnings	118	-	(76)	(16)	26
Charged (Credited) to OCI	(24)	-	-	-	(24)
As at December 31, 2016	3,146	-	6	1	3,153

Deferred Income Tax Assets	Unused Tax Losses	Timing of Partnership Items	Risk Management	Other	Total
As at December 31, 2014	(72)	-	(4)	(57)	(133)
Charged (Credited) to Earnings	(80)	(36)	(4)	(59)	(179)
Charged (Credited) to OCI	(20)	-	-	(3)	(23)
As at December 31, 2015	(172)	(36)	(8)	(119)	(335)
Charged (Credited) to Earnings	(102)	36	(77)	(92)	(235)
Charged (Credited) to OCI	4	-	-	(2)	2
As at December 31, 2016	(270)	-	(85)	(213)	(568)

Net Deferred Income Tax Liabilities	Total
Net Deferred Income Tax Liabilities as at December 31, 2014	3,302
Charged (Credited) to Earnings	(655)
Charged (Credited) to OCI	169
Net Deferred Income Tax Liabilities as at December 31, 2015	2,816
Charged (Credited) to Earnings	(209)
Charged (Credited) to OCI	(22)
Net Deferred Income Tax Liabilities as at December 31, 2016	2,585

No deferred tax liability has been recognized as at December 31, 2016 on temporary differences associated with investments in subsidiaries and joint arrangements where the Company can control the timing of the reversal of the temporary difference and the reversal is not probable in the foreseeable future. As at December 31, 2016, the Company had temporary differences of \$7,457 million (2015 – \$6,692 million) in respect of certain of these investments where, on dissolution or sale, a tax liability may exist.

The approximate amounts of tax pools available, including tax losses, are:

As at December 31,	2016	2015
Canada	4,273	4,882
United States	2,036	2,119
	6,309	7,001

As at December 31, 2016, the above tax pools included \$46 million (2015 – \$13 million) of Canadian non-capital losses and \$623 million (2015 – \$380 million) of U.S. federal net operating losses. These losses expire no earlier than 2031.

Also included in the December 31, 2016 tax pools are Canadian net capital losses totaling \$43 million (2015 – \$44 million), which are available for carry forward to reduce future capital gains. Of these losses, \$40 million are unrecognized as a deferred income tax asset as at December 31, 2016 (2015 – \$41 million). Recognition is dependent on future capital gains. The Company has not recognized \$730 million (2015 – \$828 million) of net capital losses associated with unrealized foreign exchange losses on its U.S. denominated debt.

11. PER SHARE AMOUNTS

A) Net Earnings (Loss) Per Share

For the years ended December 31,	2016	2015	2014
Net Earnings (Loss) – Basic and Diluted (\$ millions)	(545)	618	744
Weighted Average Number of Shares – Basic (millions)	833.3	818.7	756.9
Dilutive Effect of Cenovus TSARs	-	-	0.7
Weighted Average Number of Shares – Diluted	833.3	818.7	757.6
Net Earnings (Loss) Per Share – Basic and Diluted (\$)	(0.65)	0.75	0.98

B) Dividends Per Share

For the year ended December 31, 2016, the Company paid dividends of \$166 million or \$0.20 per share, all of which were paid in cash (2015 – \$710 million or \$0.8524 per share, including cash dividends of \$528 million; 2014 – \$805 million or \$1.0648 per share, all of which were paid in cash). The Cenovus Board of Directors declared a first quarter dividend of \$0.05 per share, payable on March 31, 2017, to common shareholders of record as of March 15, 2017.

12. CASH AND CASH EQUIVALENTS

As at December 31,	2016	2015
Cash	542	323
Short-Term Investments	3,178	3,782
	3,720	4,105

13. ACCOUNTS RECEIVABLE AND ACCRUED REVENUES

As at December 31,	2016	2015
Accruals	1,606	1,037
Partner Advances	-	35
Prepays and Deposits	127	71
Note Receivable From Partner ⁽¹⁾	50	-
Trade	29	61
Joint Operations Receivables	11	13
Other	15	34
	1,838	1,251

(1) Note receivable from partner is interest bearing at a rate of 1.6783 percent per annum and is due on demand.

14. INVENTORIES

As at December 31,	2016	2015
Product		
Refining and Marketing	1,006	591
Oil Sands	156	158
Conventional	20	11
Parts and Supplies	55	50
	1,237	810

During the year ended December 31, 2016, approximately \$9,964 million of produced and purchased inventory was recorded as an expense (2015 – \$10,618 million; 2014 – \$15,065 million).

As a result of a decline in commodity prices, Cenovus recorded a write-down of its product inventory of \$4 million from cost to net realizable value as at December 31, 2016 (2015 – \$66 million).

15. EXPLORATION AND EVALUATION ASSETS

	Total
As at December 31, 2014	1,625
Additions	138
Acquisitions	3
Transfers to PP&E (Note 16)	(49)
Exploration Expense (Note 9)	(138)
Change in Decommissioning Liabilities	(4)
As at December 31, 2015	1,575
Additions	67
Transfers to PP&E (Note 16)	(49)
Exploration Expense (Note 9)	(2)
Change in Decommissioning Liabilities	(6)
As at December 31, 2016	1,585

16. PROPERTY, PLANT AND EQUIPMENT, NET

	Upstream Assets		Refining Equipment	Other ⁽¹⁾	Total
	Development & Production	Other Upstream			
COST					
As at December 31, 2014	31,701	329	4,151	910	37,091
Additions	1,289	2	240	45	1,576
Acquisition (Note 17)	1	-	-	83	84
Transfers From E&E Assets (Note 15)	49	-	-	-	49
Change in Decommissioning Liabilities	(635)	-	1	(1)	(635)
Exchange Rate Movements and Other	(1)	-	814	-	813
Divestitures (Note 7)	(923)	-	-	-	(923)
As at December 31, 2015	31,481	331	5,206	1,037	38,055
Additions	717	2	213	38	970
Transfers From E&E Assets (Note 15)	49	-	-	-	49
Change in Decommissioning Liabilities	(267)	-	(8)	-	(275)
Exchange Rate Movements and Other	(16)	-	(152)	(1)	(169)
Divestitures (Note 7)	(23)	-	-	-	(23)
As at December 31, 2016	31,941	333	5,259	1,074	38,607
ACCUMULATED DEPRECIATION, DEPLETION AND AMORTIZATION					
As at December 31, 2014	17,153	233	584	558	18,528
DD&A	1,601	44	189	80	1,914
Impairment Losses (Note 9)	200	-	-	-	200
Exchange Rate Movements and Other	(1)	-	123	1	123
Divestitures (Note 7)	(45)	-	-	-	(45)
As at December 31, 2015	18,908	277	896	639	20,720
DD&A	1,173	31	205	66	1,475
Impairment Losses (Note 9)	481	-	-	4	485
Reversal of Impairment Losses (Note 9)	(462)	-	-	-	(462)
Exchange Rate Movements and Other	(4)	-	(25)	-	(29)
Divestitures (Note 7)	(8)	-	-	-	(8)
As at December 31, 2016	20,088	308	1,076	709	22,181
CARRYING VALUE					
As at December 31, 2014	14,548	96	3,567	352	18,563
As at December 31, 2015	12,573	54	4,310	398	17,335
As at December 31, 2016	11,853	25	4,183	365	16,426

(1) Includes crude-by-rail terminal, office furniture, fixtures, leasehold improvements, information technology and aircraft.

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PP&E includes the following amounts in respect of assets under construction and not subject to DD&A:

As at December 31,	2016	2015
Development and Production	537	537
Refining Equipment	206	265
	743	802

17. ACQUISITION

In 2015, the Company completed the acquisition of a crude-by-rail terminal for cash consideration of \$75 million, plus adjustments. The transaction was accounted for using the acquisition method of accounting. In connection with the acquisition, the Company assumed an associated decommissioning liability of \$4 million, working capital of \$1 million and net transportation commitments of \$92 million. Transaction costs associated with the acquisition were expensed. These assets, related liabilities and results of operations are reported in the Refining and Marketing segment.

18. OTHER ASSETS

As at December 31,	2016	2015
Equity Investments	35	46
Long-Term Receivables	15	1
Prepays	5	7
Other (Note 8)	1	22
	56	76

19. GOODWILL

All of the Company's goodwill arose in 2002 upon the formation of its predecessor corporation. As at December 31, 2016 and 2015, the \$242 million carrying amount of goodwill was associated with the Company's Primrose (Foster Creek) CGU.

For the purposes of impairment testing, goodwill is allocated to the CGU to which it relates. The assumptions used to test Cenovus's goodwill for impairment as at December 31, 2016 are consistent to those disclosed in Note 9.

20. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As at December 31,	2016	2015
Accruals	1,927	1,366
Trade	105	68
Interest	72	73
Note Payable to Partner ⁽¹⁾	50	-
Employee Long-Term Incentives	42	47
Onerous Contract Provisions	18	-
Other	52	113
Partner Advances	-	35
	2,266	1,702

(1) Note payable to partner is interest bearing at a rate of 1.6783 percent per annum and is due on demand.

21. LONG-TERM DEBT

As at December 31,		2016	2015
Revolving Term Debt ⁽¹⁾	A	-	-
U.S. Dollar Denominated Unsecured Notes	B	6,378	6,574
Total Debt Principal	C	6,378	6,574
Debt Discounts and Transaction Costs	D	(46)	(49)
		6,332	6,525

(1) Revolving term debt may include Bankers' Acceptances, London Interbank Offered Rate ("LIBOR") based loans, prime rate loans and U.S. base rate loans.

The weighted average interest rate on outstanding debt for the year ended December 31, 2016 was 5.3 percent (2015 – 5.3 percent).

A) Revolving Term Debt

As at December 31, 2016, Cenovus had in place a committed credit facility in the amount of \$4.0 billion or the equivalent amount in U.S. dollars. On April 22, 2016, the Company renegotiated the maturity date of the \$1.0 billion tranche from November 30, 2017 to April 30, 2019. The \$3.0 billion tranche matures on November 30, 2019. The maturity dates are extendable from time to time, at the option of Cenovus and upon agreement from the lenders. Borrowings are available by way of Bankers' Acceptances, LIBOR based loans, prime rate loans or U.S. base rate loans. As at December 31, 2016, there were no amounts drawn on Cenovus's committed bank credit facility (2015 – \$nil).

B) Unsecured Notes

Unsecured notes are composed of:

As at December 31,	US\$ Principal Amount	2016	2015
5.70% due October 15, 2019	1,300	1,746	1,799
3.00% due August 15, 2022	500	671	692
3.80% due September 15, 2023	450	604	623
6.75% due November 15, 2039	1,400	1,880	1,938
4.45% due September 15, 2042	750	1,007	1,038
5.20% due September 15, 2043	350	470	484
	4,750	6,378	6,574

On February 24, 2016, Cenovus filed a base shelf prospectus. The base shelf prospectus allows the Company to offer, from time to time, up to US\$5.0 billion, or the equivalent in other currencies, of debt securities, common shares, preferred shares, subscription receipts, warrants, share purchase contracts and units in Canada, the U.S. and elsewhere where permitted by law. The base shelf prospectus will expire in March 2018. As at December 31, 2016, no issuances have been made under the US\$5.0 billion base shelf prospectus.

As at December 31, 2016, the Company is in compliance with all of the terms of its debt agreements.

C) Mandatory Debt Payments

	US\$ Principal Amount	C\$ Principal Amount	Total C\$ Equivalent
2017	-	-	-
2018	-	-	-
2019	1,300	-	1,746
2020	-	-	-
2021	-	-	-
Thereafter	3,450	-	4,632
	4,750	-	6,378

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D) Debt Discounts and Transaction Costs

Long-term debt transaction costs and discounts associated with the unsecured notes are recorded within long-term debt and are amortized using the effective interest rate method. Transaction costs associated with the revolving term debt are recorded as a prepayment and are amortized over the remaining term of the committed credit facility. During 2016, additional transaction costs of \$1 million were recorded (2015 – \$3 million).

E) Reconciliation of Liabilities to Cash Flows Arising From Financing Activities

	Short-Term Borrowings	Long-Term Borrowings
As at December 31, 2015	-	6,525
Changes From Financing Cash Flows	-	-
Non-Cash Changes:		
Unrealized Foreign Exchange (Gain) Loss (Note 6)	-	(196)
Amortization of Debt Discounts	-	3
As at December 31, 2016	-	6,332

22. DECOMMISSIONING LIABILITIES

The decommissioning provision represents the present value of the expected future costs associated with the retirement of upstream crude oil and natural gas assets, refining facilities and the crude-by-rail terminal. The aggregate carrying amount of the obligation is:

As at December 31,	2016	2015
Decommissioning Liabilities, Beginning of Year	2,052	2,616
Liabilities Incurred	11	10
Liabilities Acquired	-	4
Liabilities Settled	(51)	(62)
Liabilities Divested	(1)	-
Change in Estimated Future Cash Flows	(423)	(70)
Change in Discount Rate	131	(579)
Unwinding of Discount on Decommissioning Liabilities	130	126
Foreign Currency Translation	(2)	7
Decommissioning Liabilities, End of Year	1,847	2,052

As at December 31, 2016, the undiscounted amount of estimated future cash flows required to settle the obligation is \$6,270 million (2015 – \$6,665 million), which has been discounted using a credit-adjusted risk-free rate of 5.9 percent (2015 – 6.4 percent). An inflation rate of two percent (2015 – two percent) was used to calculate the decommissioning provision. Most of these obligations are not expected to be paid for several years, or decades, and are expected to be funded from general resources at that time. The Company expects to settle approximately \$55 million to \$90 million of decommissioning liabilities over the next year. Revisions in estimated future cash flows resulted from lower cost estimates, partially offset by accelerated timing of decommissioning liabilities over the estimated life of the reserves.

Sensitivities

Changes to the credit-adjusted risk-free rate or the inflation rate would have the following impact on the decommissioning liabilities:

As at December 31,	2016		2015	
	Credit-Adjusted Risk-Free Rate	Inflation Rate	Credit-Adjusted Risk-Free Rate	Inflation Rate
One Percent Increase	(248)	327	(247)	319
One Percent Decrease	317	(259)	308	(259)

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23. OTHER LIABILITIES

As at December 31,	2016	2015
Employee Long-Term Incentives	72	40
Pension and OPEB (Note 24)	71	66
Onerous Contract Provisions	35	-
Other	33	36
	211	142

24. PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS

The Company provides employees with a pension that includes either a defined contribution or defined benefit component and OPEB. Most of the employees participate in the defined contribution pension. Starting in 2012, employees who meet certain criteria may move from the current defined contribution component to a defined benefit component for their future service.

The defined benefit pension provides pension benefits at retirement based on years of service and final average earnings. Future enrollment is limited to eligible employees who meet certain criteria. The Company's OPEB provides certain retired employees with health care and dental benefits until age 65 and life insurance benefits.

The Company is required to file an actuarial valuation of its registered defined benefit pension with the provincial regulator at least every three years. The most recently filed valuation was dated December 31, 2014 and the next required actuarial valuation will be as at December 31, 2017.

A) Defined Benefit and OPEB Plan Obligation and Funded Status

Information related to defined benefit pension and OPEB plans, based on actuarial estimations, is:

As at December 31,	Pension Benefits		OPEB	
	2016	2015	2016	2015
Defined Benefit Obligation				
Defined Benefit Obligation, Beginning of Year	168	200	26	23
Current Service Costs	14	19	(3)	3
Interest Costs ⁽¹⁾	7	8	1	1
Benefits Paid	(25)	(6)	(1)	(1)
Plan Participant Contributions	2	3	-	-
Past Service Costs – Curtailments	-	(5)	-	-
Settlements	-	(20)	-	-
Remeasurements:				
(Gains) Losses from Experience Adjustments	-	(3)	-	-
(Gains) Losses from Changes in Financial Assumptions	7	(28)	-	-
Defined Benefit Obligation, End of Year	173	168	23	26
Plan Assets				
Fair Value of Plan Assets, Beginning of Year	128	139	-	-
Employer Contributions	14	16	-	-
Plan Participant Contributions	2	3	-	-
Benefits Paid	(25)	(6)	-	-
Settlements	-	(23)	-	-
Interest Income ⁽¹⁾	3	2	-	-
Remeasurements:				
Return on Plan Assets (Excluding Interest Income)	3	(3)	-	-
Fair Value of Plan Assets, End of Year	125	128	-	-
Pension and OPEB (Liability) ⁽²⁾	(48)	(40)	(23)	(26)

(1) Based on the discount rate of the defined benefit obligation at the beginning of the year.

(2) Pension and OPEB liabilities are included in other liabilities on the Consolidated Balance Sheets.

The weighted average duration of the defined benefit pension and OPEB obligations are 16 years and 11 years, respectively.

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B) Pension and OPEB Costs

For the years ended December 31,	Pension Benefits			OPEB		
	2016	2015	2014	2016	2015	2014
Defined Benefit Plan Cost						
Current Service Costs	14	19	15	(3)	3	2
Past Service Costs – Curtailments	-	(5)	-	-	-	-
Net Settlement Costs	-	3	-	-	-	-
Net Interest Costs	4	6	3	1	1	1
Remeasurements:						
Return on Plan Assets (Excluding Interest Income)	(3)	3	(8)	-	-	-
(Gains) Losses from Experience Adjustments	-	(3)	-	-	-	-
(Gains) Losses from Changes in Demographic Assumptions	-	-	(1)	-	-	-
(Gains) Losses from Changes in Financial Assumptions	7	(28)	31	-	-	2
Defined Benefit Plan Cost (Gain)	22	(5)	40	(2)	4	5
Defined Contribution Plan Cost	25	29	30	-	-	-
Total Plan Cost	47	24	70	(2)	4	5

C) Investment Objectives and Fair Value of Plan Assets

The objective of the asset allocation is to manage the funded status of the plan at an appropriate level of risk, giving consideration to the security of the assets and the potential volatility of market returns and the resulting effect on both contribution requirements and pension expense. The long-term return is expected to achieve or exceed the return from a composite benchmark comprised of passive investments in appropriate market indices. The asset allocation structure is subject to diversification requirements and constraints which reduce risk by limiting exposure to individual equity investment and credit rating categories.

The allocation of assets between the various types of investment funds is monitored quarterly and is re-balanced as necessary. The asset allocation structure targets an investment of 50 to 75 percent in equity securities, 25 to 35 percent in fixed income assets, zero to 15 percent in real estate assets and zero to 10 percent in cash and cash equivalents.

The Company does not use derivative instruments to manage the risks of its plan assets. There has been no change in the process used by the Company to manage these risks from prior periods.

The fair value of the plan assets is:

As at December 31,	2016	2015
Equity Funds	73	73
Bond Funds	25	31
Non-Invested Assets	13	17
Real Estate Funds	9	4
Cash and Cash Equivalents	5	3
	125	128

Fair value of equity securities and bond funds are based on the trading price of the underlying funds. The fair value of the non-invested assets is the discounted value of the expected future payments. The fair value of the real estate fund reflects the market value and the fund manager's appraisal value of the assets.

Equity securities do not include any direct investments in Cenovus shares.

D) Funding

The defined benefit pension is funded in accordance with federal and provincial government pension legislation, where applicable. Contributions are made to trust funds administered by an independent trustee. The Company's contributions to the defined benefit pension plan are based on actuarial valuations and direction of the Management Pension Committee and Human Resources and Compensation Committee of the Board of Directors.

Employees participating in the defined benefit pension are required to contribute four percent of their pensionable earnings, up to an annual maximum, and the Company provides the balance of the funding necessary to ensure benefits will be fully provided for at retirement. The expected employer contributions for the year ended December 31, 2017 are \$14 million for the defined benefit pension plan and \$nil for the OPEB. The OPEB is funded on an as required basis.

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E) Actuarial Assumptions and Sensitivities

Actuarial Assumptions

The principal weighted average actuarial assumptions used to determine benefit obligations and expenses are as follows:

For the years ended December 31,	Pension Benefits			OPEB		
	2016	2015	2014	2016	2015	2014
Discount Rate	3.75%	4.00%	3.75%	3.75%	3.75%	3.75%
Future Salary Growth Rate	3.80%	3.80%	4.32%	5.15%	5.15%	5.65%
Average Longevity (years)	87.9	88.3	88.3	87.9	88.3	88.3
Health Care Cost Trend Rate	N/A	N/A	N/A	7.00%	7.00%	7.00%

The discount rates are determined with reference to market yields on high quality corporate debt instruments of similar duration to the benefit obligations at the end of the reporting period.

Sensitivities

The sensitivity of the defined benefit and OPEB obligation to changes in relevant actuarial assumptions is:

As at December 31,	2016		2015	
	Increase	Decrease	Increase	Decrease
One Percent Change:				
Discount Rate	(25)	32	(27)	35
Future Salary Growth Rate	3	(3)	3	(3)
Health Care Cost Trend Rate	2	(1)	2	(2)
One Year Change in Assumed Life Expectancy	4	(4)	4	(4)

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant; however, the changes in some assumptions may be correlated. The same methodologies have been used to calculate the sensitivity of the defined benefit obligation to significant actuarial assumptions as have been applied when calculating the defined benefit pension liability recorded on the Consolidated Balance Sheets.

F) Risks

Through its defined benefit pension and OPEB plans, the Company is exposed to actuarial risks, such as longevity risk, interest rate risk, investment risk and salary risk.

Longevity Risk

The present value of the defined benefit plan obligation is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of participants will increase the defined benefit plan obligation.

Interest Rate Risk

A decrease in corporate bond yields will increase the defined benefit plan obligation, although this will be partially offset by an increase in the return on debt holdings.

Investment Risk

The present value of the defined benefit plan obligation is calculated using a discount rate determined by reference to high quality corporate bond yields. If the return on plan assets is below this rate, a plan deficit will result. Due to the long-term nature of the plan liabilities, a higher portion of the plan assets are invested in equity securities than in debt instruments and real estate.

Salary Risk

The present value of the defined benefit plan obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the defined benefit obligation.

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25. SHARE CAPITAL

A) Authorized

Cenovus is authorized to issue an unlimited number of common shares and first and second preferred shares not exceeding, in aggregate, 20 percent of the number of issued and outstanding common shares. The first and second preferred shares may be issued in one or more series with rights and conditions to be determined by the Company's Board of Directors prior to issuance and subject to the Company's articles.

B) Issued and Outstanding

As at December 31,	2016		2015	
	Number of Common Shares (thousands)	Amount	Number of Common Shares (thousands)	Amount
Outstanding, Beginning of Year	833,290	5,534	757,103	3,889
Common Shares Issued, Net of Issuance Costs	-	-	67,500	1,463
Common Shares Issued Pursuant to Dividend Reinvestment Plan	-	-	8,687	182
Outstanding, End of Year	833,290	5,534	833,290	5,534

On March 3, 2015, Cenovus issued 67.5 million common shares at a price of \$22.25 per common share. Share issuance costs of \$53 million were incurred.

The Company has a DRIP, whereby 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 or purchased on the market. During the year ended December 31, 2016, the Company issued no common shares from treasury under the DRIP (2015 - 8.7 million).

There were no preferred shares outstanding as at December 31, 2016 (2015 - nil).

As at December 31, 2016, there were 12 million (2015 - 12 million) common shares available for future issuance under the stock option plan.

C) Paid in Surplus

Cenovus's paid in surplus reflects the Company's retained earnings prior to the split of Encana Corporation ("Encana") under the plan of arrangement into two independent energy companies, Encana and Cenovus (pre-arrangement earnings). In addition, paid in surplus includes stock-based compensation expense related to the Company's NSRs discussed in Note 27A.

	Pre-Arrangement Earnings	Stock-Based Compensation	Total
As at December 31, 2014	4,086	205	4,291
Stock-Based Compensation Expense	-	39	39
As at December 31, 2015	4,086	244	4,330
Stock-Based Compensation Expense	-	20	20
As at December 31, 2016	4,086	264	4,350

26. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

	Defined Benefit Plan	Foreign Currency Translation	Available for Sale Financial Assets	Total
As at December 31, 2014	(30)	427	10	407
Other Comprehensive Income (Loss), Before Tax	28	587	8	623
Income Tax	(8)	-	(2)	(10)
As at December 31, 2015	(10)	1,014	16	1,020
Other Comprehensive Income (Loss), Before Tax	(4)	(106)	(4)	(114)
Income Tax	1	-	3	4
As at December 31, 2016	(13)	908	15	910

27. STOCK-BASED COMPENSATION PLANS

A) Employee Stock Option Plan

Cenovus has an Employee Stock Option Plan that provides employees with the opportunity to exercise an option to purchase a common share 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 expire after seven years.

Options issued by the Company on or after February 24, 2011 have associated NSRs. The NSRs, in lieu of exercising the option, give the option holder the right to receive the number of common shares that could be acquired with the excess value of the market price of Cenovus's common shares at the time of exercise over the exercise price of the option.

Options issued by the Company under the Employee Stock Option Plan prior to February 24, 2011 have associated TSARs. In lieu of exercising the options, the TSARs give the option holder 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 option.

The TSARs and NSRs vest and expire under the same terms and conditions as the underlying options.

NSRs

The weighted average unit fair value of NSRs granted during the year ended December 31, 2016 was \$3.77 before considering forfeitures, which are considered in determining total cost for the period. The fair value of each NSR was estimated on its grant date using the Black-Scholes-Merton valuation model with weighted average assumptions as follows:

Risk-Free Interest Rate	0.72%
Expected Dividend Yield	1.01%
Expected Volatility ⁽¹⁾	27.82%
Expected Life (years)	3.50

(1) Expected volatility has been based on historical share volatility of the Company and comparable industry peers.

The following tables summarize information related to the NSRs:

As at December 31, 2016	Number of NSRs (thousands)	Weighted Average Exercise Price (\$)
Outstanding, Beginning of Year	42,114	31.65
Granted	3,646	19.54
Exercised	-	-
Forfeited	(4,116)	31.76
Outstanding, End of Year	41,644	30.57

As at December 31, 2016 Range of Exercise Price (\$)	Outstanding NSRs			Exercisable NSRs	
	Number of NSRs (thousands)	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price (\$)	Number of NSRs (thousands)	Weighted Average Exercise Price (\$)
15.00 to 19.99	3,588	6.32	19.54	1	17.93
20.00 to 24.99	3,932	5.15	22.26	1,212	22.28
25.00 to 29.99	12,777	4.14	28.38	7,772	28.40
30.00 to 34.99	11,194	3.18	32.62	10,868	32.63
35.00 to 39.99	10,153	1.78	38.20	10,153	38.20
	41,644	3.59	30.57	30,006	33.00

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TSARs

The Company had a liability of \$nil as at December 31, 2016 (2015 – \$1 million) in the Consolidated Balance Sheets based on the fair value of each TSAR held by Cenovus employees. Fair value was estimated at the period-end date using the Black-Scholes-Merton valuation model with weighted average assumptions as follows:

Risk-Free Interest Rate	1.11%
Expected Dividend Yield	1.08%
Expected Volatility ⁽¹⁾	35.19%
Cenovus's Common Share Price (\$)	20.30

(1) Expected volatility has been based on historical share volatility of the Company and comparable industry peers.

The intrinsic value of vested TSARs held by Cenovus employees as at December 31, 2016 was \$nil (2015 – \$nil).

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

As at December 31, 2016	Number of TSARs (thousands)	Weighted Average Exercise Price (\$)
Outstanding, Beginning of Year	3,645	26.72
Exercised for Cash Payment	-	-
Exercised as Options for Common Shares	-	-
Forfeited	(272)	27.45
Expired	-	-
Outstanding, End of Year	3,373	26.66

As at December 31, 2016 Range of Exercise Price (\$)	Outstanding and Exercisable TSARs		
	Number of TSARs (thousands)	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price (\$)
20.00 to 29.99	3,261	0.16	26.45
30.00 to 34.99	112	0.97	32.86
	3,373	0.19	26.66

The market price of Cenovus's common shares on the TSX as at December 31, 2016 was \$20.30.

B) Performance Share Units

Cenovus has granted PSUs to certain employees under its Performance Share Unit Plan for 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. For a portion of PSUs, the number of PSUs eligible for payment is determined over three years based on the units granted multiplied by 30 percent after year one, 30 percent after year two and 40 percent after year three. All PSUs are eligible to vest based on the Company achieving key pre-determined performance measures. PSUs vest after three years.

The Company has recorded a liability of \$51 million as at December 31, 2016 (2015 – \$49 million) in the Consolidated Balance Sheets for PSUs based on the market value of Cenovus's common shares at the end of the year. As PSUs are paid out upon vesting, the intrinsic value of vested PSUs was \$nil as at December 31, 2016 and 2015.

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

As at December 31, 2016	Number of PSUs (thousands)
Outstanding, Beginning of Year	6,427
Granted	2,345
Vested and Paid Out	(979)
Cancelled	(1,697)
Units in Lieu of Dividends	61
Outstanding, End of Year	6,157

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C) Restricted Share Units

Cenovus has granted RSUs to certain employees under its Restricted Share Unit Plan for Employees. RSUs 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. RSUs vest after three years.

RSUs are accounted for as liability instruments and are measured at fair value based on the market value of Cenovus's common shares at each period end. The fair value is recognized as stock-based compensation costs over the vesting period. Fluctuations in the fair value are recognized as stock-based compensation costs in the period they occur.

The Company has recorded a liability of \$30 million as at December 31, 2016 (2015 – \$11 million) in the Consolidated Balance Sheets for RSUs based on the market value of Cenovus's common shares at the end of the year. As RSUs are paid out upon vesting, the intrinsic value of vested RSUs was \$nil as at December 31, 2016 and 2015.

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

As at December 31, 2016	Number of RSUs (thousands)
Outstanding, Beginning of Year	2,267
Granted	1,718
Vested and Paid Out	(32)
Cancelled	(200)
Units in Lieu of Dividends	37
Outstanding, End of Year	3,790

D) Deferred Share Units

Under two Deferred Share Unit Plans, Cenovus directors, officers and certain employees may receive DSUs, which are equivalent in value to a common share of the Company. Eligible employees have the option to convert either zero, 25 or 50 percent of their annual bonus award into DSUs. DSUs vest immediately, are redeemed in accordance with the terms of the agreement and expire on December 15 of the calendar year following the year of cessation of directorship or employment.

The Company has recorded a liability of \$32 million as at December 31, 2016 (2015 – \$26 million) in the Consolidated Balance Sheets for DSUs based on the market value of Cenovus's common shares at the end of the year. The intrinsic value of vested DSUs equals the carrying value as DSUs vest at the time of grant.

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

As at December 31, 2016	Number of DSUs (thousands)
Outstanding, Beginning of Year	1,488
Granted to Directors	92
Granted	11
Units in Lieu of Dividends	17
Redeemed	(10)
Outstanding, End of Year	1,598

E) Total Stock-Based Compensation

For the years ended December 31,	2016	2015	2014
NSRs	15	27	41
TSARs	(1)	(5)	(10)
PSUs	13	(13)	34
RSUs	13	6	-
DSUs	7	(5)	(5)
Stock-Based Compensation Expense	47	10	60
Stock-Based Compensation Costs Capitalized	12	6	29
Total Stock-Based Compensation	59	16	89

28. EMPLOYEE SALARIES AND BENEFIT EXPENSES

For the years ended December 31,	2016	2015	2014
Salaries, Bonuses and Other Short-Term Employee Benefits	500	534	550
Defined Contribution Pension Plan	16	19	18
Defined Benefit Pension Plan and OPEB	11	17	14
Stock-Based Compensation Expense (Note 27)	47	10	60
Termination Benefits	19	43	-
	593	623	642

29. RELATED PARTY TRANSACTIONS

Key Management Compensation

Key management includes Directors (executive and non-executive), Executive Officers, Senior Vice-Presidents and Vice-Presidents. The compensation paid or payable to key management is:

For the years ended December 31,	2016	2015	2014
Salaries, Director Fees and Short-Term Benefits	27	30	29
Post-Employment Benefits	4	5	4
Stock-Based Compensation	4	5	20
	35	40	53

Post-employment benefits represent the present value of future pension benefits earned during the year. Stock-based compensation includes the costs recorded during the year associated with stock options, NSRs, TSARs, PSUs, RSUs and DSUs.

30. CAPITAL STRUCTURE

Cenovus's capital structure objectives and targets have remained unchanged from previous periods. Cenovus's capital structure consists of Shareholders' Equity plus Debt. Debt is defined as short-term borrowings, and the current and long-term portions of long-term debt. Net debt includes the Company's short-term borrowings, and the current and long-term portions of long-term debt, net of cash and cash equivalents. 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 financing requirements using, among other things, non-GAAP financial metrics consisting of Debt to Capitalization and Debt to Adjusted Earnings Before Interest, Taxes and DD&A ("Adjusted EBITDA"). These metrics are used to steward Cenovus's overall debt position as measures of Cenovus's overall financial strength.

Over the long term, Cenovus targets a Debt to Capitalization ratio of between 30 and 40 percent and a Debt to Adjusted EBITDA ratio of between 1.0 and 2.0 times. At different points within the economic cycle, Cenovus expects these ratios may periodically be outside of the target range.

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A) Debt to Capitalization and Net Debt to Capitalization

As at December 31,	2016	2015	2014
Debt	6,332	6,525	5,458
Shareholders' Equity	11,590	12,391	10,186
	17,922	18,916	15,644
Debt to Capitalization	35%	34%	35%
Debt	6,332	6,525	5,458
Add (Deduct):			
Cash and Cash Equivalents	(3,720)	(4,105)	(883)
Net Debt	2,612	2,420	4,575
Shareholders' Equity	11,590	12,391	10,186
	14,202	14,811	14,761
Net Debt to Capitalization	18%	16%	31%

B) Debt to Adjusted EBITDA and Net Debt to Adjusted EBITDA

As at December 31,	2016	2015	2014
Debt	6,332	6,525	5,458
Net Debt	2,612	2,420	4,575
Net Earnings (Loss)	(545)	618	744
Add (Deduct):			
Finance Costs	492	482	445
Interest Income	(52)	(28)	(33)
Income Tax Expense (Recovery)	(382)	(81)	451
DD&A	1,498	2,114	1,946
Goodwill Impairment	-	-	497
E&E Impairment	2	138	86
Unrealized (Gain) Loss on Risk Management	554	195	(596)
Foreign Exchange (Gain) Loss, Net	(198)	1,036	411
(Gain) Loss on Divestitures of Assets	6	(2,392)	(156)
Other (Income) Loss, Net	34	2	(4)
Adjusted EBITDA	1,409	2,084	3,791
Debt to Adjusted EBITDA	4.5x	3.1x	1.4x
Net Debt to Adjusted EBITDA	1.9x	1.2x	1.2x

Cenovus will maintain a high level of capital discipline and manage its capital structure to help ensure sufficient liquidity through all stages of the economic cycle. To manage its capital structure, Cenovus may, among other actions, 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.

Effective April 22, 2016, the Company extended the maturity date of the \$1.0 billion tranche of the committed credit facility from November 30, 2017 to April 30, 2019. As at December 31, 2016, Cenovus had \$4.0 billion available on its committed credit facility. In addition, Cenovus has in place a US\$5.0 billion base shelf prospectus, the availability of which is dependent on market conditions.

Under the committed credit facility, the Company is required to maintain a debt to capitalization ratio, as defined in the agreement, not to exceed 65 percent. The Company is well below this limit.

As at December 31, 2016, Cenovus is in compliance with all of the terms of its debt agreements.

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31. FINANCIAL INSTRUMENTS

Cenovus's financial assets and financial liabilities consist of cash and cash equivalents, accounts receivable and accrued revenues, accounts payable and accrued liabilities, risk management assets and liabilities, available for sale financial assets, long-term receivables, short-term borrowings and long-term debt. Risk management assets and liabilities arise from the use of derivative financial instruments.

A) Fair Value of Non-Derivative Financial Instruments

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

The fair values of long-term receivables approximate their carrying amount due to the specific non-tradeable nature of these instruments.

Long-term debt is carried at amortized cost. The estimated fair values of long-term borrowings have been determined based on period-end trading prices of long-term borrowings on the secondary market (Level 2). As at December 31, 2016, the carrying value of Cenovus's long-term debt was \$6,332 million and the fair value was \$6,539 million (2015 carrying value – \$6,525 million, fair value – \$6,050 million).

Available for sale financial assets comprise private equity investments. These assets are carried at fair value on the Consolidated Balance Sheets in other assets. Fair value is determined based on recent private placement transactions (Level 3) when available. The following table provides a reconciliation of changes in the fair value of available for sale financial assets:

As at December 31,	2016	2015
Fair Value, Beginning of Year	42	32
Acquisition of Investments	-	2
Change in Fair Value ⁽¹⁾	(4)	8
Impairment Losses ⁽²⁾	(3)	-
Fair Value, End of Year	35	42

(1) Changes in fair value on available for sale financial assets are recorded in other comprehensive income.

(2) Impairment losses on available for sale financial assets are reclassified from other comprehensive income to profit or loss.

B) Fair Value of Risk Management Assets and Liabilities

The Company's risk management assets and liabilities consist of crude oil, condensate, power purchase contracts and interest rate swaps. Crude oil, condensate and, if entered, natural gas contracts, are recorded at their estimated fair value based on the difference between the contracted price and the period-end forward price for the same commodity, using quoted market prices or the period-end forward price for the same commodity extrapolated to the end of the term of the contract (Level 2). The fair value of power purchase contracts are calculated internally based on observable and unobservable inputs such as forward power prices in less active markets (Level 3). The unobservable inputs are obtained from third parties whenever possible and reviewed by the Company for reasonableness. The fair value of interest rate swaps are calculated using external valuation models which incorporate observable market data, including interest rate yield curves (Level 2).

Summary of Unrealized Risk Management Positions

As at December 31,	2016			2015		
	Asset	Risk Management Liability	Net	Asset	Risk Management Liability	Net
Commodity Prices						
Crude Oil	21	307	(286)	301	15	286
Power	-	-	-	-	13	(13)
	21	307	(286)	301	28	273
Interest Rate	3	8	(5)	-	2	(2)
Total Fair Value	24	315	(291)	301	30	271

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The following table presents the Company's fair value hierarchy for risk management assets and liabilities carried at fair value:

As at December 31,	2016	2015
Level 2 – Prices Sourced From Observable Data or Market Corroboration	(291)	284
Level 3 – Prices Determined From Unobservable Inputs	-	(13)
	(291)	271

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. Prices determined from unobservable inputs refers to the fair value of contracts valued using data that is both unobservable and significant to the overall fair value measurement.

The following table provides a reconciliation of changes in the fair value of Cenovus's risk management assets and liabilities:

As at December 31,	2016	2015
Fair Value of Contracts, Beginning of Year	271	462
Fair Value of Contracts Realized During the Year ⁽¹⁾	(211)	(656)
Change in Fair Value of Contracts in Place at Beginning of Year and Contracts Entered Into During the Year ⁽²⁾	(343)	461
Unrealized Foreign Exchange Gain (Loss) on U.S. Dollar Contracts	(8)	4
Fair Value of Contracts, End of Year	(291)	271

(1) Includes a realized loss of \$6 million related to power contracts (2015 – \$10 million loss).

(2) Includes an increase of \$7 million related to power contracts (2015 – \$14 million decrease).

Financial assets and liabilities are offset only if Cenovus has the current legal right to offset and intends to settle on a net basis or settle the asset and liability simultaneously. Cenovus offsets risk management assets and liabilities when the counterparty, commodity, currency and timing of settlement are the same. No additional unrealized risk management positions are subject to an enforceable master netting arrangement or similar agreement that are not otherwise offset.

The following table provides a summary of the Company's offsetting risk management positions:

As at December 31,	2016			2015		
	Asset	Risk Management Liability	Net	Asset	Risk Management Liability	Net
Recognized Risk Management Positions						
Gross Amount	75	366	(291)	317	46	271
Amount Offset	(51)	(51)	-	(16)	(16)	-
Net Amount per Consolidated Financial Statements	24	315	(291)	301	30	271

The derivative liabilities do not have credit risk-related contingent features. Due to credit practices that limit transactions according to counterparties' credit quality, the change in fair value through profit or loss attributable to changes in the credit risk of financial liabilities is immaterial.

Cenovus pledges cash collateral with respect to certain of these risk management contracts, which is not offset against the related financial liability. The amount of cash collateral required will vary daily over the life of these risk management contracts as commodity prices change. Additional cash collateral is required if, on a net basis, risk management payables exceed risk management receivables on a particular day. As at December 31, 2016, \$84 million (2015 – \$26 million) was pledged as collateral, of which \$18 million (2015 – \$5 million) could have been withdrawn.

C) Earnings Impact of (Gains) Losses From Risk Management Positions

For the years ended December 31,	2016	2015	2014
Realized (Gain) Loss ⁽¹⁾	(211)	(656)	(66)
Unrealized (Gain) Loss ⁽²⁾	554	195	(596)
(Gain) Loss on Risk Management	343	(461)	(662)

(1) Realized gains and losses on risk management are recorded in the operating segment to which the derivative instrument relates.

(2) Unrealized gains and losses on risk management are recorded in the Corporate and Eliminations segment.

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32. RISK MANAGEMENT

Cenovus is exposed to financial risks, including market risk related to commodity prices, foreign exchange rates, interest rates as well as credit risk and liquidity risk.

Net Fair Value of Risk Management Positions

As at December 31, 2016	Notional Volumes	Terms	Average Price	Fair Value
Crude Oil Contracts				
Fixed Price Contracts				
Brent Fixed Price	10,000 bbls/d	July – December 2017	US\$53.09/bbl	(14)
Brent Fixed Price	10,000 bbls/d	January – June 2018	US\$54.06/bbl	(11)
WTI Fixed Price	70,000 bbls/d	January – June 2017	US\$46.35/bbl	(159)
WTI Collars	50,000 bbls/d	July – December 2017	US\$44.84 – US\$56.47/bbl	(52)
WTI Collars	10,000 bbls/d	January – June 2018	US\$45.30 – US\$62.77/bbl	(3)
Other Financial Positions ⁽¹⁾				(47)
Crude Oil Fair Value Position				(286)
Interest Rate Swaps				
				(5)
Total Fair Value				(291)

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

Sensitivities – Risk Management Positions

The following table summarizes the sensitivity of the fair value of Cenovus's risk management positions to fluctuations in commodity prices or interest rates, with all other variables held constant. Management believes the fluctuations identified in the table below are a reasonable measure of volatility. The impact of fluctuating commodity prices or interest rates on the Company's open risk management positions could have resulted in unrealized gains (losses) impacting earnings before income tax as follows:

As at December 31, 2016	Sensitivity Range	Increase	Decrease
Crude Oil Commodity Price	± US\$5.00 per bbl Applied to Brent, WTI and Condensate Hedges	(198)	193
Crude Oil Differential Price	± US\$2.50 per bbl Applied to Differential Hedges Tied to Production	1	(1)
Interest Rate Swaps	± 50 Basis Points	45	(52)
As at December 31, 2015	Sensitivity Range	Increase	Decrease
Crude Oil Commodity Price	± US\$10.00 per bbl Applied to Brent, WTI and Condensate Hedges	(220)	222
Crude Oil Differential Price	± US\$5.00 per bbl Applied to Differential Hedges Tied to Production	80	(80)
Interest Rate Swaps	± 50 Basis Points	38	(46)

A) Commodity Price Risk

Commodity price risk arises from the effect that fluctuations of forward 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 instruments for speculative purposes.

Crude Oil – The Company has used fixed price swaps and costless collars to partially mitigate its exposure to the commodity price risk on its crude oil sales. In addition, Cenovus has entered into a limited number of swaps and futures to help protect against widening light/heavy crude oil price differentials.

Condensate – The Company has used fixed price swaps to partially mitigate its exposure to the commodity price risk on its condensate purchases.

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Natural Gas – To partially mitigate the natural gas commodity price risk, the Company may enter into swaps, which fix the AECO or the New York Mercantile Exchange (“NYMEX”) price. To help protect against widening natural gas price differentials in various production areas, Cenovus may also enter into swaps to manage the price differentials between production areas and various sales points.

B) 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.

As disclosed in Note 6, 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. As at December 31, 2016, Cenovus had US\$4,750 million in U.S. dollar debt issued from Canada (2015 – US\$4,750 million). In respect of these financial instruments, the impact of changes in the U.S. to Canadian dollar exchange rate would have resulted in a change to the foreign exchange (gain) loss as follows:

For the years ended December 31,	2016	2015	2014
\$0.01 Increase in the U.S. to Canadian Dollar Foreign Exchange Rate	48	48	48
\$0.01 Decrease in the U.S. to Canadian Dollar Foreign Exchange Rate	(48)	(48)	(48)

C) Interest Rate Risk

Interest rate risk arises from changes in market interest rates that may affect 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. In addition, to manage exposure to interest rate volatility, the Company entered into interest rate swap contracts related to expected future debt issuances. As at December 31, 2016, Cenovus had a notional amount of US\$400 million in interest rate swaps.

As at December 31, 2016, the increase or decrease in net earnings for a one percent change in interest rates on floating rate debt amounts to \$nil (2015 – \$nil, 2014 – \$nil). This assumes the amount of fixed and floating debt remains unchanged from the respective balance sheet dates.

D) Credit Risk

Credit risk arises from the potential that the Company may incur a financial loss if a counterparty to a financial instrument fails to meet its financial or performance obligations in accordance with agreed terms. Cenovus has in place a Credit Policy approved by the Audit Committee of the Board of Directors designed to ensure that its credit exposures are within an acceptable risk level as determined by the Company’s Enterprise Risk Management Policy. The Credit Policy outlines the roles and responsibilities related to credit risk, sets a framework for how credit exposures will be measured, monitored and mitigated, and sets parameters around credit concentration limits.

Cenovus assesses the credit risk of new counterparties and continues risk-based monitoring of all counterparties on an ongoing basis. 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. Cenovus’s exposure to its counterparties is within credit policy tolerances.

As at December 31, 2016 and 2015, substantially all of the Company’s accounts receivable were less than 60 days. As at December 31, 2016, 90 percent (2015 – 91 percent) of Cenovus’s accounts receivable and financial derivative credit exposures are with investment grade counterparties. As at December 31, 2016, Cenovus had three counterparties (2015 – one counterparty) whose net settlement position individually accounted for more than 10 percent of the fair value of the outstanding in-the-money net financial and physical contracts. The maximum credit risk exposure associated with accounts receivable and accrued revenues, risk management assets, and long-term receivables is the total carrying value.

E) 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 risk through the active management of cash and debt and by maintaining appropriate access to credit, which may be impacted by the Company’s credit ratings. As disclosed in Note 30, over the long term, 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.

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Cenovus manages its liquidity risk by ensuring that it has access to multiple sources of capital including: cash and cash equivalents, cash from operating activities, undrawn credit facilities and availability under its shelf prospectuses. As at December 31, 2016, Cenovus had \$3.7 billion in cash and cash equivalents, and \$4.0 billion available on its committed credit facility. In addition, Cenovus has in place a US\$5.0 billion base shelf prospectus, the availability of which is dependent on market conditions.

Undiscounted cash outflows relating to financial liabilities are:

As at December 31, 2016	Less than 1 Year	1-3 Years	4-5 Years	Thereafter	Total
Accounts Payable and Accrued Liabilities	2,266	-	-	-	2,266
Risk Management Liabilities ⁽¹⁾	293	22	-	-	315
Long-Term Debt ⁽²⁾	339	2,662	1,150	7,550	11,701
Other	-	25	8	16	49

As at December 31, 2015	Less than 1 Year	1-3 Years	4-5 Years	Thereafter	Total
Accounts Payable and Accrued Liabilities	1,702	-	-	-	1,702
Risk Management Liabilities ⁽¹⁾	23	5	2	-	30
Long-Term Debt ⁽²⁾	349	2,847	493	8,721	12,410
Other	-	3	1	4	8

(1) Risk management liabilities subject to master netting agreements.

(2) Principal and interest, including current portion.

33. SUPPLEMENTARY CASH FLOW INFORMATION

For the years ended December 31,	2016	2015	2014
Interest Paid	350	330	335
Interest Received	32	19	33
Income Taxes Paid	11	933	46

34. COMMITMENTS AND CONTINGENCIES

A) Commitments

Future payments for the Company's commitments are below. A commitment is an enforceable and legally binding agreement to make a payment in the future for the purchase of goods and services. These items exclude amounts recorded in the Consolidated Balance Sheets.

As at December 31, 2016	1 Year	2 Years	3 Years	4 Years	5 Years	Thereafter	Total
Transportation and Storage ⁽¹⁾	682	711	722	1,031	1,239	21,875	26,260
Operating Leases (Building Leases) ⁽²⁾	101	146	146	145	142	2,465	3,145
Product Purchases	70	-	-	-	-	-	70
Capital Commitments	23	3	-	-	-	-	26
Other Long-Term Commitments	80	27	26	15	15	108	271
Total Payments ⁽³⁾	956	887	894	1,191	1,396	24,448	29,772
Fixed Price Product Sales	3	-	-	-	-	-	3

As at December 31, 2015	1 Year	2 Years	3 Years	4 Years	5 Years	Thereafter	Total
Transportation and Storage ⁽¹⁾	702	715	780	774	901	23,537	27,409
Operating Leases (Building Leases) ⁽²⁾	116	120	156	153	151	2,647	3,343
Product Purchases	84	3	-	-	-	-	87
Capital Commitments	61	14	4	-	-	-	79
Other Long-Term Commitments	45	31	24	26	15	125	266
Total Payments ⁽³⁾	1,008	883	964	953	1,067	26,309	31,184
Fixed Price Product Sales	55	3	-	-	-	-	58

(1) Includes transportation commitments of \$19 billion (2015 - \$19 billion) that are subject to regulatory approval or have been approved but are not yet in service.

(2) Excludes committed payment for which a provision has been provided.

(3) Contracts undertaken on behalf of FCCL and WRB are reflected at Cenovus's 50 percent interest.

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For the year ended December 31, 2016, the Company's transportation commitments decreased approximately \$1.1 billion primarily due to the use of contracts and changes in toll estimates. These agreements, some of which are subject to regulatory approval, are for terms up to 20 years subsequent to the date of commencement.

As at December 31, 2016, there were outstanding letters of credit aggregating \$258 million issued as security for performance under certain contracts (2015 – \$64 million).

In addition to the above, Cenovus's commitments related to its risk management program are disclosed in Note 32.

B) Contingencies

Legal Proceedings

Cenovus is involved in a limited number of legal claims associated with the normal course of operations. Cenovus believes that any liabilities that might arise from such matters, to the extent not provided for, are not likely to have a material effect on its Consolidated Financial Statements.

Decommissioning Liabilities

Cenovus is responsible for the retirement of long-lived assets at the end of their useful lives. Cenovus has recorded a liability of \$1,847 million, based on current legislation and estimated costs, related to its crude oil and natural gas properties, refining facilities and midstream facilities. Actual costs may differ from those estimated due to changes in legislation and changes in costs.

Income Tax Matters

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