Cenovus Energy Inc.

Interim Consolidated Financial Statements (unaudited)

For the Period Ended December 31, 2012

(Canadian Dollars)

CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME (unaudited)

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

	Notes	Three Months Ended 2012	Three Months Ended 2011	Twelve Months Ended 2012	Twelve Months Ended 2011
Revenues	1				
Gross sales		**3,802**	4,480	**17,229**	16,185
Less: Royalties		**78**	151	**387**	489
		3,724	4,329	**16,842**	15,696
Expenses	1				
Purchased product		**1,888**	2,531	**9,223**	9,090
Transportation and blending		**475**	396	**1,798**	1,369
Operating		**481**	386	**1,682**	1,406
Production and mineral taxes		**9**	9	**37**	36
(Gain) loss on risk management	19	**(209)**	230	**(393)**	(248)
Depreciation, depletion and amortization	11	**409**	383	**1,585**	1,295
Goodwill impairment	12	**393**	-	**393**	-
Exploration expense	10	**-**	-	**68**	-
General and administrative		**98**	89	**352**	295
Finance costs	3	**111**	112	**455**	447
Interest income	4	**(25)**	(30)	**(109)**	(124)
Foreign exchange (gain) loss, net	5	**22**	(30)	**(20)**	26
(Gain) loss on divestiture of assets		**-**	(104)	**-**	(107)
Other (income) loss, net		**(1)**	3	**(5)**	4
Earnings Before Income Tax		**73**	354	**1,776**	2,207
Income tax expense	6	**191**	88	**783**	729
Net Earnings (Loss)		**(118)**	266	**993**	1,478
Other Comprehensive Income (Loss), Net of Tax					
Foreign currency translation adjustment		**12**	(25)	**(24)**	48
Comprehensive Income (Loss)		**(106)**	241	**969**	1,526
Net Earnings (Loss) per Common Share	7				
Basic		**$ (0.16)**	$ 0.35	**$ 1.31**	$ 1.96
Diluted		**$ (0.16)**	$ 0.35	**$ 1.31**	$ 1.95

See accompanying Notes to Consolidated Financial Statements (unaudited).

CONSOLIDATED BALANCE SHEETS (unaudited)

As at
($ millions)

	Notes	December 31, 2012	December 31, 2011
Assets			
Current Assets			
Cash and cash equivalents		**1,160**	495
Accounts receivable and accrued revenues		**1,464**	1,405
Current portion of Partnership Contribution Receivable		**384**	372
Inventories	8	**1,288**	1,291
Risk management	19	**283**	232
Assets held for sale	9	**-**	116
Current Assets		**4,579**	3,911
Exploration and Evaluation Assets	1,10	**1,285**	880
Property, Plant and Equipment, net	1,11	**16,152**	14,324
Partnership Contribution Receivable		**1,398**	1,822
Risk Management	19	**5**	52
Income Tax Receivable		**-**	29
Other Assets		**58**	44
Goodwill	1,12	**739**	1,132
Total Assets		**24,216**	22,194
Liabilities and Shareholders' Equity			
Current Liabilities			
Accounts payable and accrued liabilities		**2,650**	2,579
Income tax payable		**217**	329
Current portion of Partnership Contribution Payable		**386**	372
Risk management	19	**17**	54
Liabilities related to assets held for sale	9	**-**	54
Current Liabilities		**3,270**	3,388
Long-Term Debt	13	**4,679**	3,527
Partnership Contribution Payable		**1,426**	1,853
Risk Management	19	**1**	14
Decommissioning Liabilities	14	**2,315**	1,777
Other Liabilities		**151**	128
Deferred Income Taxes		**2,568**	2,101
Total Liabilities		**14,410**	12,788
Shareholders' Equity		**9,806**	9,406
Total Liabilities and Shareholders' Equity		**24,216**	22,194

See accompanying Notes to Consolidated Financial Statements (unaudited).

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (unaudited)

($ millions)

	Share Capital (Note 15)	Paid in Surplus	Retained Earnings	AOCI*	Total
Balance as at December 31, 2010	3,716	4,083	525	71	8,395
Net earnings	-	-	1,478	-	1,478
Other comprehensive income (loss)	-	-	-	48	48
Total comprehensive income (loss) for the period	-	-	1,478	48	1,526
Common shares issued under option plans	64	-	-	-	64
Stock-based compensation expense	-	24	-	-	24
Dividends on common shares	-	-	(603)	-	(603)
Balance as at December 31, 2011	3,780	4,107	1,400	119	9,406
Net earnings	-	-	993	-	993
Other comprehensive income (loss)	-	-	-	(24)	(24)
Total comprehensive income (loss) for the period	-	-	993	(24)	969
Common shares issued under option plans	49	-	-	-	49
Stock-based compensation expense	-	47	-	-	47
Dividends on common shares	-	-	(665)	-	(665)
Balance as at December 31, 2012	**3,829**	**4,154**	**1,728**	**95**	**9,806**

* Accumulated Other Comprehensive Income.

See accompanying Notes to Consolidated Financial Statements (unaudited).

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

For the period ended December 31,
($ millions)

	Notes	Three Months Ended 2012	2011	Twelve Months Ended 2012	2011
Operating Activities					
Net earnings (loss)		**(118)**	266	**993**	1,478
Depreciation, depletion and amortization		**409**	383	**1,585**	1,295
Goodwill impairment		**393**	-	**393**	-
Exploration expense		**-**	-	**68**	-
Deferred income taxes	6	**66**	24	**474**	575
Cash tax on divestiture of assets		**-**	13	**-**	13
Unrealized (gain) loss on risk management	19	**(117)**	242	**(57)**	(180)
Unrealized foreign exchange (gain) loss	5	**12**	(43)	**(70)**	(42)
(Gain) loss on divestiture of assets		**-**	(104)	**-**	(107)
Unwinding of discount on decommissioning liabilities	3,14	**22**	19	**86**	75
Other		**30**	51	**171**	169
		697	851	**3,643**	3,276
Net change in other assets and liabilities		**(42)**	(20)	**(113)**	(82)
Net change in non-cash working capital		**103**	121	**(110)**	79
Cash From Operating Activities		**758**	952	**3,420**	3,273
Investing Activities					
Capital expenditures – exploration and evaluation assets	10	**(203)**	(186)	**(654)**	(527)
Capital expenditures – property, plant and equipment	11	**(812)**	(767)	**(2,795)**	(2,265)
Proceeds from divestiture of assets		**11**	165	**76**	173
Cash tax on divestiture of assets		**-**	(13)	**-**	(13)
Net change in investments and other		**(3)**	(7)	**(13)**	(28)
Net change in non-cash working capital		**32**	137	**50**	130
Cash (Used in) Investing Activities		**(975)**	(671)	**(3,336)**	(2,530)
Net Cash Provided (Used) before Financing Activities		**(217)**	281	**84**	743
Financing Activities					
Net issuance (repayment) of short-term borrowings		**-**	(6)	**3**	(9)
Issuance of long-term debt		**-**	-	**1,219**	-
Proceeds on issuance of common shares		**2**	4	**37**	48
Dividends paid on common shares	7	**(167)**	(151)	**(665)**	(603)
Other		**(3)**	9	**(2)**	6
Cash From (Used in) Financing Activities		**(168)**	(144)	**592**	(558)
Foreign Exchange Gain (Loss) on Cash and Cash Equivalents Held in Foreign Currency		**2**	-	**(11)**	10
Increase (Decrease) in Cash and Cash Equivalents		**(383)**	137	**665**	195
Cash and Cash Equivalents, Beginning of Period		**1,543**	358	**495**	300
Cash and Cash Equivalents, End of Period		**1,160**	495	**1,160**	495

See accompanying Notes to Consolidated Financial Statements (unaudited).

1. DESCRIPTION OF BUSINESS AND SEGMENTED DISCLOSURES

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

Cenovus began independent operations on December 1, 2009, as a result of the plan of arrangement ("Arrangement") involving Encana Corporation ("Encana") whereby Encana was split into two independent energy companies, one a natural gas company, Encana, and the other an oil company, Cenovus. In connection with the Arrangement, Encana common shareholders received one share in each of the new Encana and Cenovus in exchange for each Encana share held.

Cenovus was incorporated under the *Canada Business Corporations Act* and its shares are publicly traded 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 presentation for these consolidated financial statements is found in Note 2.

The Company's reportable segments are as follows:

- **Oil Sands,** includes the development and production of Cenovus's bitumen assets at Foster Creek, Christina Lake and Narrows Lake as well as heavy oil assets at Pelican Lake. This segment also includes the Athabasca natural gas assets and 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 carbon dioxide enhanced oil recovery project at Weyburn and emerging tight oil opportunities.

- **Refining and Marketing,** which is focused on the refining of crude oil products into petroleum and chemical products at two refineries located in the U.S. The refineries are jointly owned with and operated by Phillips 66, an unrelated U.S. public company. This segment also markets Cenovus's crude oil and natural gas, as well as third-party purchases and sales of product that provide operational flexibility for transportation commitments, product type, delivery points and customer diversification.

- **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, and financing activities. 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 tabular financial information which follows presents the segmented information first by segment, then by product and geographic location.

All amounts in $ millions, unless otherwise indicated

A) Results of Operations – Segment and Operational Information (For the Three Months Ended December 31)

	Oil Sands		Conventional		Refining and Marketing	
	2012	2011	**2012**	2011	**2012**	2011
Revenues						
Gross sales	**1,062**	951	**522**	611	**2,336**	2,927
Less: Royalties	**40**	94	**38**	57	**-**	-
	1,022	857	**484**	554	**2,336**	2,927
Expenses						
Purchased product	**-**	-	**-**	-	**2,006**	2,540
Transportation and blending	**441**	362	**34**	34	**-**	-
Operating	**152**	117	**131**	137	**198**	132
Production and mineral taxes	**-**	-	**9**	9	**-**	-
(Gain) loss on risk management	**(45)**	21	**(57)**	(50)	**10**	17
Operating Cash Flow	**474**	357	**367**	424	**122**	238
Depreciation, depletion and amortization	**130**	93	**225**	203	**37**	76
Goodwill impairment	**-**	-	**393**	-	**-**	-
Exploration expense	**-**	-	**-**	-	**-**	-
Segment Income (Loss)	**344**	264	**(251)**	221	**85**	162

	Corporate and Eliminations		Consolidated	
	2012	2011	**2012**	2011
Revenues				
Gross sales	**(118)**	(9)	**3,802**	4,480
Less: Royalties	**-**	-	**78**	151
	(118)	(9)	**3,724**	4,329
Expenses				
Purchased product	**(118)**	(9)	**1,888**	2,531
Transportation and blending	**-**	-	**475**	396
Operating	**-**	-	**481**	386
Production and mineral taxes	**-**	-	**9**	9
(Gain) loss on risk management	**(117)**	242	**(209)**	230
	117	(242)	**1,080**	777
Depreciation, depletion and amortization	**17**	11	**409**	383
Goodwill impairment	**-**	-	**393**	-
Exploration expense	**-**	-	**-**	-
Segment Income (Loss)	**100**	(253)	**278**	394
General and administrative	**98**	89	**98**	89
Finance costs	**111**	112	**111**	112
Interest income	**(25)**	(30)	**(25)**	(30)
Foreign exchange (gain) loss, net	**22**	(30)	**22**	(30)
(Gain) loss on divestiture of assets	**-**	(104)	**-**	(104)
Other (income) loss, net	**(1)**	3	**(1)**	3
	205	40	**205**	40
Earnings Before Income Tax			**73**	354
Income tax expense			**191**	88
Net Earnings (Loss)			**(118)**	266

All amounts in $ millions, unless otherwise indicated

B) Financial Results by Upstream Product (For the Three Months Ended December 31)

	Crude Oil and NGLs					
	Oil Sands		Conventional		Total	
	2012	2011	**2012**	2011	**2012**	2011
Revenues						
Gross sales	**1,043**	931	**372**	416	**1,415**	1,347
Less: Royalties	**40**	93	**36**	54	**76**	147
	1,003	838	**336**	362	**1,339**	1,200
Expenses						
Transportation and blending	**440**	361	**30**	26	**470**	387
Operating	**143**	108	**70**	69	**213**	177
Production and mineral taxes	**-**	-	**10**	8	**10**	8
(Gain) loss on risk management	**(42)**	26	**(14)**	13	**(56)**	39
Operating Cash Flow	**462**	343	**240**	246	**702**	589

	Natural Gas					
	Oil Sands		Conventional		Total	
	2012	2011	**2012**	2011	**2012**	2011
Revenues						
Gross sales	**15**	16	**146**	192	**161**	208
Less: Royalties	**-**	1	**2**	3	**2**	4
	15	15	**144**	189	**159**	204
Expenses						
Transportation and blending	**1**	1	**4**	8	**5**	9
Operating	**7**	7	**60**	67	**67**	74
Production and mineral taxes	**-**	-	**(1)**	1	**(1)**	1
(Gain) loss on risk management	**(3)**	(5)	**(43)**	(63)	**(46)**	(68)
Operating Cash Flow	**10**	12	**124**	176	**134**	188

	Other					
	Oil Sands		Conventional		Total	
	2012	2011	**2012**	2011	**2012**	2011
Revenues						
Gross sales	**4**	4	**4**	3	**8**	7
Less: Royalties	**-**	-	**-**	-	**-**	-
	4	4	**4**	3	**8**	7
Expenses						
Transportation and blending	**-**	-	**-**	-	**-**	-
Operating	**2**	2	**1**	1	**3**	3
Production and mineral taxes	**-**	-	**-**	-	**-**	-
(Gain) loss on risk management	**-**	-	**-**	-	**-**	-
Operating Cash Flow	**2**	2	**3**	2	**5**	4

	Total Upstream					
	Oil Sands		Conventional		Total	
	2012	2011	**2012**	2011	**2012**	2011
Revenues						
Gross sales	**1,062**	951	**522**	611	**1,584**	1,562
Less: Royalties	**40**	94	**38**	57	**78**	151
	1,022	857	**484**	554	**1,506**	1,411
Expenses						
Transportation and blending	**441**	362	**34**	34	**475**	396
Operating	**152**	117	**131**	137	**283**	254
Production and mineral taxes	**-**	-	**9**	9	**9**	9
(Gain) loss on risk management	**(45)**	21	**(57)**	(50)	**(102)**	(29)
Operating Cash Flow	**474**	357	**367**	424	**841**	781

All amounts in $ millions, unless otherwise indicated

C) Geographic Information (For the Three Months Ended December 31)

	Canada		United States		Consolidated	
	2012	2011	**2012**	2011	**2012**	2011
Revenues						
Gross sales	**2,010**	2,101	**1,792**	2,379	**3,802**	4,480
Less: Royalties	**78**	151	**-**	-	**78**	151
	1,932	1,950	**1,792**	2,379	**3,724**	4,329
Expenses						
Purchased product	**418**	537	**1,470**	1,994	**1,888**	2,531
Transportation and blending	**475**	396	**-**	-	**475**	396
Operating	**288**	259	**193**	127	**481**	386
Production and mineral taxes	**9**	9	**-**	-	**9**	9
(Gain) loss on risk management	**(216)**	204	**7**	26	**(209)**	230
	958	545	**122**	232	**1,080**	777
Depreciation, depletion and amortization	**372**	307	**37**	76	**409**	383
Goodwill impairment	**393**	-	**-**	-	**393**	-
Exploration expense	**-**	-	**-**	-	**-**	-
Segment Income (Loss)	**193**	238	**85**	156	**278**	394

The Oil Sands and Conventional segments operate in Canada. Both of Cenovus's refining facilities are located and carry on business in the U.S. The marketing of Cenovus's crude oil and natural gas produced in Canada, as well as the third party purchases and sales of product, is undertaken in Canada. Physical product sales that settle in the U.S. are considered to be export sales undertaken by a Canadian business. The Corporate and Eliminations segment is attributed to Canada with the exception of the unrealized risk management gains and losses which have been attributed to the country in which the transacting entity resides.

All amounts in $ millions, unless otherwise indicated

D) Results of Operations – Segment and Operational Information (For the Twelve Months Ended December 31)

	Oil Sands		Conventional		Refining and Marketing	
	2012	2011	**2012**	2011	**2012**	2011
Revenues						
Gross sales	**4,088**	3,291	**2,068**	2,328	**11,356**	10,625
Less: Royalties	**215**	284	**172**	205	**-**	-
	3,873	3,007	**1,896**	2,123	**11,356**	10,625
Expenses						
Purchased product	**-**	-	**-**	-	**9,506**	9,149
Transportation and blending	**1,653**	1,231	**145**	138	**-**	-
Operating	**584**	438	**513**	488	**587**	481
Production and mineral taxes	**-**	-	**37**	36	**-**	-
(Gain) loss on risk management	**(80)**	70	**(252)**	(152)	**(4)**	14
Operating Cash Flow	**1,716**	1,268	**1,453**	1,613	**1,267**	981
Depreciation, depletion and amortization	**482**	347	**905**	778	**146**	130
Goodwill impairment	**-**	-	**393**	-	**-**	-
Exploration expense	**-**	-	**68**	-	**-**	-
Segment Income (Loss)	**1,234**	921	**87**	835	**1,121**	851

	Corporate and Eliminations		Consolidated	
	2012	2011	**2012**	2011
Revenues				
Gross sales	**(283)**	(59)	**17,229**	16,185
Less: Royalties	**-**	-	**387**	489
	(283)	(59)	**16,842**	15,696
Expenses				
Purchased product	**(283)**	(59)	**9,223**	9,090
Transportation and blending	**-**	-	**1,798**	1,369
Operating	**(2)**	(1)	**1,682**	1,406
Production and mineral taxes	**-**	-	**37**	36
(Gain) loss on risk management	**(57)**	(180)	**(393)**	(248)
	59	181	**4,495**	4,043
Depreciation, depletion and amortization	**52**	40	**1,585**	1,295
Goodwill impairment	**-**	-	**393**	-
Exploration expense	**-**	-	**68**	-
Segment Income (Loss)	**7**	141	**2,449**	2,748
General and administrative	**352**	295	**352**	295
Finance costs	**455**	447	**455**	447
Interest income	**(109)**	(124)	**(109)**	(124)
Foreign exchange (gain) loss, net	**(20)**	26	**(20)**	26
(Gain) loss on divestiture of assets	**-**	(107)	**-**	(107)
Other (income) loss, net	**(5)**	4	**(5)**	4
	673	541	**673**	541
Earnings Before Income Tax			**1,776**	2,207
Income tax expense			**783**	729
Net Earnings			**993**	1,478

All amounts in $ millions, unless otherwise indicated

E) Financial Results by Upstream Product (For the Twelve Months Ended December 31)

	Crude Oil and NGLs					
	Oil Sands		Conventional		Total	
	2012	2011	2012	2011	2012	2011
Revenues						
Gross sales	4,037	3,217	1,559	1,492	5,596	4,709
Less: Royalties	215	282	166	193	381	475
	3,822	2,935	1,393	1,299	5,215	4,234
Expenses						
Transportation and blending	1,651	1,229	126	104	1,777	1,333
Operating	548	409	294	244	842	653
Production and mineral taxes	-	-	34	27	34	27
(Gain) loss on risk management	(62)	87	(23)	43	(85)	130
Operating Cash Flow	1,685	1,210	962	881	2,647	2,091

	Natural Gas					
	Oil Sands		Conventional		Total	
	2012	2011	2012	2011	2012	2011
Revenues						
Gross sales	40	63	496	825	536	888
Less: Royalties	-	2	6	12	6	14
	40	61	490	813	530	874
Expenses						
Transportation and blending	2	2	19	34	21	36
Operating	25	24	215	240	240	264
Production and mineral taxes	-	-	3	9	3	9
(Gain) loss on risk management	(18)	(17)	(229)	(195)	(247)	(212)
Operating Cash Flow	31	52	482	725	513	777

	Other					
	Oil Sands		Conventional		Total	
	2012	2011	2012	2011	2012	2011
Revenues						
Gross sales	11	11	13	11	24	22
Less: Royalties	-	-	-	-	-	-
	11	11	13	11	24	22
Expenses						
Transportation and blending	-	-	-	-	-	-
Operating	11	5	4	4	15	9
Production and mineral taxes	-	-	-	-	-	-
(Gain) loss on risk management	-	-	-	-	-	-
Operating Cash Flow	-	6	9	7	9	13

	Total Upstream					
	Oil Sands		Conventional		Total	
	2012	2011	2012	2011	2012	2011
Revenues						
Gross sales	4,088	3,291	2,068	2,328	6,156	5,619
Less: Royalties	215	284	172	205	387	489
	3,873	3,007	1,896	2,123	5,769	5,130
Expenses						
Transportation and blending	1,653	1,231	145	138	1,798	1,369
Operating	584	438	513	488	1,097	926
Production and mineral taxes	-	-	37	36	37	36
(Gain) loss on risk management	(80)	70	(252)	(152)	(332)	(82)
Operating Cash Flow	1,716	1,268	1,453	1,613	3,169	2,881

All amounts in $ millions, unless otherwise indicated

F) Geographic Information (For the Twelve Months Ended December 31)

	Canada		**United States**		**Consolidated**	
	2012	2011	**2012**	2011	**2012**	2011
Revenues						
Gross sales	**8,069**	7,513	**9,160**	8,672	**17,229**	16,185
Less: Royalties	**387**	489	**-**	-	**387**	489
	7,682	7,024	**9,160**	8,672	**16,842**	15,696
Expenses						
Purchased product	**1,884**	1,867	**7,339**	7,223	**9,223**	9,090
Transportation and blending	**1,798**	1,369	**-**	-	**1,798**	1,369
Operating	**1,118**	947	**564**	459	**1,682**	1,406
Production and mineral taxes	**37**	36	**-**	-	**37**	36
(Gain) loss on risk management	**(385)**	(255)	**(8)**	7	**(393)**	(248)
	3,230	3,060	**1,265**	983	**4,495**	4,043
Depreciation, depletion and amortization	**1,439**	1,165	**146**	130	**1,585**	1,295
Goodwill impairment	**393**	-	**-**	-	**393**	-
Exploration expense	**68**	-	**-**	-	**68**	-
Segment Income (Loss)	**1,330**	1,895	**1,119**	853	**2,449**	2,748

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

By Segment

	Exploration and Evaluation Assets		**Property, Plant and Equipment**	
As at	**December 31, 2012**	December 31, 2011	**December 31, 2012**	December 31, 2011
Oil Sands	**1,110**	741	**7,764**	6,224
Conventional	**175**	139	**4,929**	4,668
Refining and Marketing	**-**	-	**3,088**	3,200
Corporate and Eliminations	**-**	-	**371**	232
Consolidated	**1,285**	880	**16,152**	14,324

	Goodwill		**Total Assets**	
As at	**December 31, 2012**	December 31, 2011	**December 31, 2012**	December 31, 2011
Oil Sands	**739**	739	**11,972**	10,524
Conventional	**-**	393	**5,304**	5,566
Refining and Marketing	**-**	-	**5,018**	4,927
Corporate and Eliminations	**-**	-	**1,922**	1,177
Consolidated	**739**	1,132	**24,216**	22,194

All amounts in $ millions, unless otherwise indicated

By Geographic Region

	Exploration and Evaluation Assets		Property, Plant and Equipment	
As at	**December 31, 2012**	December 31, 2011	**December 31, 2012**	December 31, 2011
Canada	**1,285**	880	**13,065**	11,124
United States	**-**	-	**3,087**	3,200
Consolidated	**1,285**	880	**16,152**	14,324

	Goodwill		Total Assets	
As at	**December 31, 2012**	December 31, 2011	**December 31, 2012**	December 31, 2011
Canada	**739**	1,132	**19,744**	17,536
United States	**-**	-	**4,472**	4,658
Consolidated	**739**	1,132	**24,216**	22,194

H) Capital Expenditures

	Three Months Ended		Twelve Months Ended	
For the period ended December 31,	**2012**	2011	**2012**	2011
Capital				
Oil Sands	**605**	465	**2,211**	1,415
Conventional	**257**	330	**848**	788
Refining and Marketing	**58**	73	**118**	393
Corporate	**58**	35	**191**	127
	978	903	**3,368**	2,723
Acquisition Capital				
Oil Sands [2]	**67**	40	**69**	44
Conventional	**3**	10	**45**	25
Corporate	**-**	(1)	**-**	2
Total [1]	**1,048**	952	**3,482**	2,794

1. Includes expenditures on property, plant and equipment and exploration & evaluation assets.
2. 2012 asset acquisition included the assumption of a decommissioning liability of $33 million.

2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

In these interim 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 interim Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements including International Accounting Standard 34, "*Interim Financial Reporting*" ("IAS 34") and have been prepared following the same accounting policies and methods of computation as the annual Consolidated Financial Statements for the year ended December 31, 2011 except for income taxes on earnings in the interim periods are accrued using the income tax rate that would be applicable to the expected total annual earnings or loss. The disclosures provided below are incremental to those included with the annual Consolidated Financial Statements. Certain information and disclosures normally included in the notes to the annual Consolidated Financial Statements have been condensed or have been disclosed on an annual basis only. Accordingly, these interim Consolidated Financial Statements should be read in conjunction with the annual Consolidated Financial Statements for the year ended December 31, 2011, which have been prepared in accordance with IFRS as issued by the IASB.

These interim Consolidated Financial Statements of Cenovus were approved by the Audit Committee effective February 13, 2013.

All amounts in $ millions, unless otherwise indicated

3. FINANCE COSTS

For the period ended December 31,	Three Months Ended 2012	2011	Twelve Months Ended 2012	2011
Interest Expense – Short-Term Borrowings and Long-Term Debt	**64**	53	**230**	213
Interest Expense – Partnership Contribution Payable	**27**	34	**118**	138
Unwinding of Discount on Decommissioning Liabilities	**22**	19	**86**	75
Other	**(2)**	6	**21**	21
	111	112	**455**	447

4. INTEREST INCOME

For the period ended December 31,	Three Months Ended 2012	2011	Twelve Months Ended 2012	2011
Interest Income – Partnership Contribution Receivable	**(23)**	(29)	**(102)**	(120)
Other	**(2)**	(1)	**(7)**	(4)
	(25)	(30)	**(109)**	(124)

5. FOREIGN EXCHANGE (GAIN) LOSS, NET

For the period ended December 31,	Three Months Ended 2012	2011	Twelve Months Ended 2012	2011
Unrealized Foreign Exchange (Gain) Loss on translation of:				
U.S. dollar debt issued from Canada	**53**	(77)	**(69)**	78
U.S. dollar Partnership Contribution Receivable issued from Canada	**(37)**	37	**(15)**	(107)
Other	**(4)**	(3)	**14**	(13)
Unrealized Foreign Exchange (Gain) Loss	**12**	(43)	**(70)**	(42)
Realized Foreign Exchange (Gain) Loss	**10**	13	**50**	68
	22	(30)	**(20)**	26

6. INCOME TAXES

The provision for income taxes is as follows:

For the period ended December 31,	Three Months Ended 2012	2011	Twelve Months Ended 2012	2011
Current Tax				
Canada	**49**	62	**188**	150
United States [1]	**76**	2	**121**	4
Total Current Tax	**125**	64	**309**	154
Deferred Tax	**66**	24	**474**	575
	191	88	**783**	729

1. Includes $68 million of withholding tax on a U.S. dividend in 2012.

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

For the years ended December 31,	2012	2011
Earnings Before Income Tax	**1,776**	2,207
Canadian Statutory Rate	**25.2%**	26.7%
Expected Income Tax	**448**	589
Effect of Taxes Resulting from:		
Foreign tax rate differential	**146**	82
Non-deductible stock-based compensation	**10**	18
Multi-jurisdictional financing	**(27)**	(50)
Foreign exchange gains (losses) not included in net earnings	**14**	(9)
Non-taxable capital (gains) losses	**(7)**	(8)
Recognition of capital losses	**(22)**	26
Adjustments arising from prior year tax filings	**33**	31
Withholding tax on foreign dividend	**68**	-
Goodwill impairment	**99**	-
Other	**21**	50
	783	729
Effective Tax Rate	**44.1%**	33.0%

The Canadian statutory tax rate decreased to 25.2 percent in 2012 from 26.7 percent in 2011 as a result of tax legislation enacted in 2007. The U.S. statutory tax rate has increased to 38.5 percent in 2012 from 37.5 percent in 2011 as a result of the allocation of taxable income to U.S. states.

7. PER SHARE AMOUNTS

A) Net Earnings per Share

For the three months ended ($ millions, except earnings per share)	**December 31, 2012**			December 31, 2011		
	Net Earnings	**Shares**	**Earnings per Share**	Net Earnings	Shares	Earnings per Share
Net earnings per share – basic	**(118)**	**755.8**	**$(0.16)**	266	754.4	$0.35
Dilutive effect of Cenovus TSARs	**-**	**2.5**		-	2.7	
Net earnings per share – diluted	**(118)**	**758.3**	**$(0.16)**	266	757.1	$0.35

For the twelve months ended ($ millions, except earnings per share)	**December 31, 2012**			December 31, 2011		
	Net Earnings	**Shares**	**Earnings per Share**	Net Earnings	Shares	Earnings per Share
Net earnings per share – basic	**993**	**755.6**	**$1.31**	1,478	754.0	$1.96
Dilutive effect of Cenovus TSARs	**-**	**2.9**		-	3.7	
Net earnings per share – diluted	**993**	**758.5**	**$1.31**	1,478	757.7	$1.95

B) Dividends per Share

The Company paid dividends of $665 million, $0.88 per share, for the twelve months ended December 31, 2012 (December 31, 2011 – $603 million, $0.80 per share).

The Cenovus Board of Directors declared a first quarter dividend of $0.242 per share, payable on March 28, 2013, to common shareholders of record as of March 15, 2013.

All amounts in $ millions, unless otherwise indicated

8. INVENTORIES

As at	December 31, 2012	December 31, 2011
Product		
Refining and Marketing	**1,056**	1,079
Oil Sands	**202**	186
Conventional	**1**	1
Parts and Supplies	**29**	25
	1,288	1,291

9. ASSETS AND LIABILITIES HELD FOR SALE

Assets and liabilities classified as held for sale consisted of the following:

As at	December 31, 2012	December 31, 2011
Assets Held for Sale		
Property, plant and equipment	**-**	116
Liabilities Related to Assets Held for Sale		
Decommissioning liabilities	**-**	54

In January 2012, the Company completed the sale of non-core natural gas assets located in Northern Alberta. A loss of $2 million was recorded on the sale. These assets and the related liabilities were reported in the Conventional segment.

10. EXPLORATION AND EVALUATION ASSETS

	E&E
COST	
As at December 31, 2010	713
Additions	527
Transfers to property, plant and equipment (Note 11)	(356)
Divestitures	(3)
Change in decommissioning liabilities	(1)
As at December 31, 2011	880
Additions [1]	687
Transfers to property, plant and equipment (Note 11)	(218)
Exploration expense	(68)
Divestitures	(11)
Change in decommissioning liabilities	15
As at December 31, 2012	**1,285**

1. 2012 asset acquisition included the assumption of a decommissioning liability of $33 million.

Exploration and evaluation assets ("E&E assets") consist of the Company's evaluation projects which are pending the determination of technical feasibility and commercial viability. All of the Company's E&E assets are located within Canada.

Additions to E&E assets for the year ended December 31, 2012 include $37 million of internal costs directly related to the evaluation of these projects (year ended December 31, 2011 – $15 million). Costs classified as general and administrative expenses have not been capitalized as part of capital expenditures. No borrowing costs have been capitalized for the years ended December 31, 2012 and 2011.

For the year ended December 31, 2012, $218 million of E&E assets were transferred to property, plant and equipment – development and production assets following the determination of technical feasibility and commercial viability of the projects in question (year ended December 31, 2011 – $356 million).

All amounts in $ millions, unless otherwise indicated

Impairment

The impairment of E&E assets and any subsequent reversal of such impairment losses are recognized in exploration expense in the Consolidated Statements of Earnings and Comprehensive Income. During the year ended December 31, 2012, $68 million of previously capitalized E&E costs related primarily to the Roncott assets within the Conventional segment were deemed not to be technically feasible and commercially viable and were recognized as exploration expense. There were no impairment losses for the year ended December 31, 2011.

11. PROPERTY, PLANT AND EQUIPMENT, NET

	Upstream Assets				
	Development & Production	Other Upstream	Refining Equipment	Other [1]	Total
COST					
As at December 31, 2010	21,720	153	2,950	450	25,273
Additions	1,704	41	391	131	2,267
Transfers from E&E assets (Note 10)	356	-	-	-	356
Transfers and reclassifications	(326)	-	(5)	(2)	(333)
Change in decommissioning liabilities	403	-	10	1	414
Exchange rate movements	1	-	79	-	80
Divestitures	-	-	-	(4)	(4)
As at December 31, 2011	23,858	194	3,425	576	28,053
Additions	2,442	44	118	191	2,795
Transfers from E&E assets (Note 10)	218	-	-	-	218
Transfers and reclassifications	-	-	(55)	-	(55)
Change in decommissioning liabilities	484	-	(16)	-	468
Exchange rate movements	1	-	(73)	-	(72)
Divestitures	-	-	-	-	-
As at December 31, 2012	**27,003**	**238**	**3,399**	**767**	**31,407**
ACCUMULATED DEPRECIATION, DEPLETION AND IMPAIRMENT					
As at December 31, 2010	12,121	124	97	304	12,646
Depreciation and depletion expense	1,108	15	85	40	1,248
Transfers and reclassifications	(211)	-	(5)	-	(216)
Impairment losses	2	-	45	-	47
Exchange rate movements	1	-	3	-	4
As at December 31, 2011	13,021	139	225	344	13,729
Depreciation and depletion expense	1,368	19	146	52	1,585
Transfers and reclassifications	-	-	(55)	-	(55)
Impairment losses	-	-	-	-	-
Exchange rate movements	1	-	(5)	-	(4)
Divestitures	-	-	-	-	-
As at December 31, 2012	**14,390**	**158**	**311**	**396**	**15,255**
CARRYING VALUE					
As at December 31, 2010	9,599	29	2,853	146	12,627
As at December 31, 2011	10,837	55	3,200	232	14,324
As at December 31, 2012	**12,613**	**80**	**3,088**	**371**	**16,152**

1. Includes office furniture, fixtures, leasehold improvements, information technology and aircraft.

Additions to development and production assets include internal costs directly related to the development and construction of oil and gas properties of $161 million for the year ended December 31, 2012 (December 31, 2011 – $125 million). All of the Company's development and production assets are located within Canada. Costs classified as general and administrative expenses have not been capitalized as part of capital expenditures. No borrowing costs have been capitalized during the years ended December 31, 2012 and 2011.

All amounts in $ millions, unless otherwise indicated

Property, plant and equipment include the following amounts in respect of assets not available for use which are not subject to depreciation until put into use:

As at	**December 31, 2012**	December 31, 2011
Development and production	**38**	52
Refining equipment	**13**	125
Other	**11**	112
	62	289

Impairment

The impairment of property, plant and equipment and any subsequent reversal of such impairment losses are recognized in depreciation, depletion and amortization in the Consolidated Statements of Earnings and Comprehensive Income. There were no impairment losses or impairment reversals recorded for the year ended December 31, 2012 (December 31, 2011 – $47 million). The impairment loss recorded in 2011 was related to a catalytic cracking unit at the Wood River Refinery, which will not be used in future operations and an impairment on non-core natural gas assets that were reclassified as held for sale (Note 9).

12. GOODWILL

As at	**December 31, 2012**	December 31, 2011
Carrying Value, Beginning of Year	**1,132**	1,132
Impairment	**(393)**	-
Carrying Value, End of Year	**739**	1,132

There were no additions to goodwill during 2012 or 2011.

Impairment Test for Cash-Generating Units Containing Goodwill

For the purpose of impairment testing, goodwill is allocated to the CGU to which it relates. All of the Company's goodwill arose on the acquisition of exploration and production assets. The carrying amount of goodwill allocated to the Company's exploration and production CGUs was as follows:

As at	**December 31, 2012**	December 31, 2011
Suffield	**-**	393
Foster Creek	**242**	242
Northern Alberta	**497**	497
	739	1,132

At December 31, 2012, the Company determined that the carrying amount of the Suffield CGU exceeded its fair value less costs to sell and the full amount of the impairment was attributed to goodwill. This goodwill arose in 2002 upon the formation of the predecessor corporation. An impairment loss of $393 million was recorded as goodwill impairment on the Consolidated Statement of Earnings and Comprehensive Income. The Suffield property resides on the Canadian Forces Base in southeast Alberta and the operating results are included in the Conventional segment. Future cash flows for the area have declined due to lower natural gas and crude oil prices and increased operating costs. In addition, minimal levels of capital spending for natural gas resulted in production exceeding reserve replacement in the area. With lower future cash flows and decreasing volumes, the carrying amount of the goodwill exceeded its fair value.

The recoverable amount was determined using fair value less costs to sell. A calculation based on discounted after-tax cash flows of proved and probable reserves using forecast prices and costs as estimated by Cenovus's independent qualified reserves evaluators was completed. To assess reasonableness, an evaluation of fair value based on comparable asset transactions was also completed.

All amounts in $ millions, unless otherwise indicated

Oil and natural gas prices

The future prices used to determine cash flows from crude oil and natural gas reserves are as follows:

	2013	2014	2015	2016	2017	Average Annual % Change to 2024
WTI (US$/barrel)	92.50	92.50	93.60	95.50	97.40	2%
AECO ($/Mcf)	3.35	3.85	4.35	4.70	5.10	3%

Discount rate

Evaluations of discounted future cash flows are initiated using the discount rate of 10 percent which is an industry standard rate used by independent qualified reserves evaluators in preparing their reserve reports. Based on the individual characteristics of the asset, other economic and operating factors are also considered which may increase or decrease the implied discount rate. Changes in the economic conditions could significantly change the estimated recoverable amount.

There was no impairment of goodwill in 2011 or 2010.

Sensitivities

Changes to the assumed discount rate or forward price estimates independently would have the following impact on the impairment of the Suffield CGU:

	One Percent Increase in the Discount Rate	Five Percent Decrease in the Forward Price Estimates
Impairment of Goodwill	-	-
Impairment of PP&E	50	100

13. LONG-TERM DEBT

As at	December 31, 2012	December 31, 2011
Revolving term debt [1]	-	-
U.S. Dollar Denominated Unsecured Notes	4,726	3,559
Total Debt Principal	4,726	3,559
Debt Discounts and Transaction Costs	(47)	(32)
	4,679	3,527

1. Revolving term debt may include bankers' acceptances, LIBOR loans, prime rate loans and U.S. base rate loans.

As at December 31, 2012, the Company is in compliance with all of the terms of its debt agreements.

On May 24, 2012, Cenovus filed a Canadian base shelf prospectus for unsecured medium term notes in the amount of $1.5 billion. The Canadian shelf prospectus allows for the issuance of medium term notes in Canadian dollars or other foreign currencies from, time to time, in one or more offerings. Terms of the notes, including, but not limited to, the principal amount, interest at either fixed or floating rates and maturity dates, will be determined at the date of issue. As at December 31, 2012, no medium term notes have been issued under this Canadian shelf prospectus. The Canadian shelf prospectus expires in June 2014.

On June 6, 2012, Cenovus filed a U.S. base shelf prospectus for unsecured notes in the amount of US$2.0 billion. The U.S. shelf prospectus allows for the issuance of debt securities in U.S. dollars or other foreign currencies, from time to time, in one or more offerings. Terms of the notes, including, but not limited to, the principal amount, interest at either fixed or floating rates and maturity dates, will be determined at the date of issue. As at December 31, 2012, US$750 million remains under this U.S. base shelf prospectus. The U.S. shelf prospectus expires in July 2014.

On August 17, 2012, Cenovus completed a public offering in the U.S. of senior unsecured notes in the aggregate principal amount of US$1.25 billion under the Company's U.S. base shelf prospectus. The net proceeds will be used for general corporate purposes, including repayment of commercial paper indebtedness. The unsecured notes issued are as follows:

	US$ Principal Amount	December 31, 2012
3.00% due August 15, 2022	**500**	**498**
4.45% due September 15, 2042	**750**	**746**
	1,250	**1,244**

In September 2012, Cenovus renegotiated its existing $3.0 billion committed credit facility, extending the maturity date to November 30, 2016 and slightly reducing both the standby fees required to maintain the facility as well as the cost of future borrowings.

14. 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 and refining facilities. The aggregate carrying amount of the obligation is as follows:

As at	December 31, 2012	December 31, 2011
Decommissioning Liabilities, Beginning of Year	**1,777**	1,399
Liabilities incurred	**99**	49
Liabilities settled	**(66)**	(56)
Liabilities divested	**-**	-
Transfers and reclassifications	**3**	(55)
Change in estimated future cash flows	**144**	146
Change in discount rate	**273**	218
Unwinding of discount on decommissioning liabilities	**86**	75
Foreign currency translation	**(1)**	1
Decommissioning Liabilities, End of Year	**2,315**	1,777

The undiscounted amount of estimated cash flows required to settle the obligation has been discounted using a credit-adjusted risk-free rate of 4.2 percent as at December 31, 2012 (December 31, 2011 – 4.8 percent).

15. SHARE CAPITAL

A) Authorized

Cenovus is authorized to issue an unlimited number of common shares, an unlimited number of first preferred shares and an unlimited number of second preferred shares. 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

	December 31, 2012		December 31, 2011	
As at	Number of Common Shares (thousands)	Amount	Number of Common Shares (thousands)	Amount
Outstanding, Beginning of Year	**754,499**	**3,780**	752,675	3,716
Common Shares Issued under Stock Option Plans	**1,344**	**49**	1,824	64
Outstanding, End of Year	**755,843**	**3,829**	754,499	3,780

There were no preferred shares outstanding as at December 31, 2012 (December 31, 2011 – nil).

As at December 31, 2012, there were 28 million (December 31, 2011 – 30 million) common shares available for future issuance under stock option plans.

16. 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 common shares of the Company. Option exercise prices approximate the market price for the common shares on the date the options were issued. Options granted are exercisable at 30 percent of the number granted after one year, an additional 30 percent of the number granted after two years, and are fully exercisable after three years. Options granted prior to February 17, 2010 expire after five years while options granted on or after February 17, 2010 expire after seven years.

Options issued by the Company under the Employee Stock Option Plan prior to February 24, 2011 have associated tandem stock appreciation rights. In lieu of exercising the options, the tandem stock appreciation rights 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.

Options issued by the Company on or after February 24, 2011 have associated net settlement rights. The net settlement rights, 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.

The tandem stock appreciation rights and net settlement rights vest and expire under the same terms and conditions as the underlying options. For the purpose of this financial statement note, options with associated tandem stock appreciation rights are referred to as "TSARs" and options with associated net settlement rights are referred to as "NSRs".

In addition, certain of the TSARs are performance based ("Performance TSARs"). The Performance TSARs vest and expire under the same terms and service conditions as the underlying option, and have an additional vesting requirement whereby vesting is subject to achievement of prescribed performance relative to pre-determined key measures. Performance TSARs that do not vest when eligible are forfeited.

In accordance with the Arrangement described in Note 1, each Cenovus and Encana employee exchanged their original Encana TSAR for one Cenovus Replacement TSAR and one Encana Replacement TSAR. The terms and conditions of the Cenovus and Encana Replacement TSARs are similar to the terms and conditions of the original Encana TSAR. The original exercise price of the Encana TSAR was apportioned to the Cenovus and Encana Replacement TSARs based on the one day volume weighted average trading price of Cenovus's common share price relative to that of Encana's common share price on the TSX on December 2, 2009. Cenovus TSARs and Cenovus Replacement TSARs are measured against the Cenovus common share price while Encana Replacement TSARs are measured against the Encana common share price. The Cenovus Replacement TSARs have similar vesting provisions as outlined above for the Employee Stock Option Plan. The original Encana Performance TSARs were also exchanged under the same terms as the original Encana TSARs.

As at December 31, 2012	Issued	Term (years)	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price ($)	Closing Share Price ($)	Units Outstanding (thousands)
Encana Replacement TSARs held by Cenovus Employees	Prior to Arrangement	**5**	**0.66**	**32.66**	**19.66**	**7,722**
Cenovus Replacement TSARs held by Encana Employees	Prior to Arrangement	**5**	**0.70**	**29.29**	**33.29**	**5,229**
TSARs	Prior to February 17, 2010	**5**	**0.72**	**29.28**	**33.29**	**6,225**
TSARs	On or After February 17, 2010	**7**	**4.20**	**26.71**	**33.29**	**5,026**
NSRs	On or After February 24, 2011	**7**	**5.85**	**37.52**	**33.29**	**15,074**

Unless otherwise indicated, all references to TSARs collectively refer to both the Cenovus issued TSARs and Cenovus Replacement TSARs.

NSRs

The weighted average unit fair value of NSRs granted during the twelve months ended December 31, 2012 was $7.62 before considering forfeitures, which are considered in determining total cost for the period. The fair value of each NSR was estimated on their grant date using the Black-Scholes-Merton valuation model with weighted average assumptions as follows:

Risk Free Interest Rate	**1.37%**
Expected Dividend Yield	**2.31%**
Expected Volatility [1]	**28.62%**
Expected Life (Years)	**4.55**

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

The following tables summarize the information related to the NSRs as at December 31, 2012:

As at December 31, 2012 (thousands of units)	NSRs	Weighted Average Exercise Price ($)
Outstanding, Beginning of Year	**5,809**	**36.95**
Granted	**9,665**	**37.87**
Exercised for common shares	**(5)**	**33.99**
Forfeited	**(395)**	**37.56**
Outstanding, End of Year	**15,074**	**37.52**
Exercisable, End of Year	**1,700**	**36.98**

For options exercised during the year, the weighted average market price of Cenovus's common shares at the date of exercise was $35.28.

	Outstanding NSRs (thousands of units)		
As at December 31, 2012 Range of Exercise Price ($)	NSRs	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price ($)
30.00 to 39.99	**15,074**	**5.85**	**37.52**

As at December 31, 2012 Range of Exercise Price ($)	Exercisable NSRs (thousands of units) NSRs	Weighted Average Exercise Price ($)
30.00 to 39.99	**1,700**	**36.98**

TSARs Held by Cenovus Employees

The Company has recorded a liability of $64 million as at December 31, 2012 (December 31, 2011 – $90 million) in the Consolidated Balance Sheets based on the fair value of each TSAR held by Cenovus employees. Fair value was estimated as at December 31, 2012 using the Black-Scholes-Merton valuation model with weighted average assumptions as follows:

Risk Free Interest Rate	**1.28%**
Expected Dividend Yield	**2.58%**
Expected Volatility [1]	**27.80%**
Cenovus's Common Share Price	**$33.29**

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, 2012 was $45 million (December 31, 2011 – $43 million).

The following tables summarize the information related to the TSARs held by Cenovus employees as at December 31, 2012:

As at December 31, 2012 (thousands of units)	TSARs	Performance TSARs	Total	Weighted Average Exercise Price ($)
Outstanding, Beginning of Year	9,391	5,530	**14,921**	**28.12**
Granted	-	-	**-**	**-**
Exercised for cash payment	(937)	(1,057)	**(1,994)**	**28.52**
Exercised as options for common shares	(683)	(641)	**(1,324)**	**27.77**
Forfeited	(134)	(207)	**(341)**	**26.77**
Expired	(11)	-	**(11)**	**30.85**
Outstanding, End of Year	**7,626**	**3,625**	**11,251**	**28.13**
Exercisable, End of Year	**5,369**	**3,625**	**8,994**	**28.46**

For options exercised during the year, the weighted average market price of Cenovus's common shares at the date of exercise was $36.73.

As at December 31, 2012 Range of Exercise Price ($)	Outstanding TSARs (thousands of units) TSARs	Performance TSARs	Total	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price ($)
20.00 to 29.99	6,269	2,143	**8,412**	**2.88**	**26.38**
30.00 to 39.99	1,294	1,482	**2,776**	**0.48**	**33.10**
40.00 to 49.99	63	-	**63**	**0.45**	**43.29**
	7,626	**3,625**	**11,251**	**2.27**	**28.13**

As at December 31, 2012 Range of Exercise Price ($)	Exercisable TSARs (thousands of units) TSARs	Performance TSARs	Total	Weighted Average Exercise Price ($)
20.00 to 29.99	4,132	2,143	**6,275**	**26.35**
30.00 to 39.99	1,174	1,482	**2,656**	**33.11**
40.00 to 49.99	63	-	**63**	**43.29**
	5,369	**3,625**	**8,994**	**28.46**

The closing price of Cenovus common shares on the TSX as at December 31, 2012 was $33.29.

Encana Replacement TSARs Held by Cenovus Employees

Cenovus is required to reimburse Encana in respect of cash payments made by Encana to Cenovus employees when a Cenovus employee exercises an Encana Replacement TSAR for cash. No further Encana Replacement TSARs will be granted to Cenovus employees.

The Company has recorded a liability of $1 million as at December 31, 2012 (December 31, 2011 – $1 million) in the Consolidated Balance Sheets based on the fair value of each Encana Replacement TSAR held by Cenovus employees. Fair value was estimated as at December 31, 2012 using the Black-Scholes-Merton valuation model with weighted average assumptions as follows:

Risk Free Interest Rate	**1.21%**
Expected Dividend Yield	**3.86%**
Expected Volatility [1]	**30.40%**
Encana's Common Share Price	**$19.66**

1. Expected volatility has been based on the historical volatility of Encana's publicly traded shares.

The intrinsic value of vested Encana Replacement TSARs held by Cenovus employees as at December 31, 2012 was $nil (December 31, 2011 – $nil).

The following tables summarize the information related to the Encana Replacement TSARs held by Cenovus employees as at December 31, 2012:

As at December 31, 2012 (thousands of units)	TSARs	Performance TSARs	Total	Weighted Average Exercise Price ($)
Outstanding, Beginning of Year	4,281	6,130	**10,411**	**31.97**
Exercised for cash payment	-	-	**-**	**-**
Exercised as options for Encana common shares	-	-	**-**	**-**
Forfeited	(112)	(333)	**(445)**	**31.04**
Expired	(1,008)	(1,236)	**(2,244)**	**29.79**
Outstanding, End of Year	**3,161**	**4,561**	**7,722**	**32.66**
Exercisable, End of Year	**3,161**	**4,561**	**7,722**	**32.66**

As at December 31, 2012 Range of Exercise Price ($)	Outstanding & Exercisable TSARs (thousands of units) TSARs	Performance TSARs	Total	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price ($)
20.00 to 29.99	1,564	2,510	**4,074**	**1.12**	**29.02**
30.00 to 39.99	1,465	2,051	**3,516**	**0.15**	**36.41**
40.00 to 49.99	130	-	**130**	**0.48**	**44.85**
50.00 to 59.99	2	-	**2**	**0.39**	**50.39**
	3,161	**4,561**	**7,722**	**0.66**	**32.66**

The closing price of Encana common shares on the TSX as at December 31, 2012 was $19.66.

Cenovus Replacement TSARs Held by Encana Employees

Encana is required to reimburse Cenovus in respect of cash payments made by Cenovus to Encana's employees when these employees exercise a Cenovus Replacement TSAR for cash. No compensation expense is recognized and no further Cenovus Replacement TSARs will be granted to Encana employees.

The Company has recorded a liability of $35 million as at December 31, 2012 (December 31, 2011 – $83 million) in the Consolidated Balance Sheets based on the fair value of each Cenovus Replacement TSAR held by Encana employees, with an offsetting account receivable from Encana. Fair value was estimated as at December 31, 2012 using the Black-Scholes-Merton valuation model with weighted average assumptions as follows:

Risk Free Interest Rate	**1.21%**
Expected Dividend Yield	**2.58%**
Expected Volatility [1]	**27.80%**
Cenovus's Common Share Price	**$33.29**

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

The intrinsic value of vested Cenovus Replacement TSARs held by Encana employees as at December 31, 2012 was $22 million (December 31, 2011 – $32 million).

The following tables summarize the information related to the Cenovus Replacement TSARs held by Encana employees as at December 31, 2012:

As at December 31, 2012 (thousands of units)	TSARs	Performance TSARs	Total	Weighted Average Exercise Price ($)
Outstanding, Beginning of Year	3,935	5,751	**9,686**	**28.96**
Exercised for cash payment	(1,788)	(2,189)	**(3,977)**	**28.69**
Exercised as options for common shares	(8)	(12)	**(20)**	**26.64**
Forfeited	(84)	(314)	**(398)**	**27.67**
Expired	(30)	(32)	**(62)**	**27.67**
Outstanding, End of Year	**2,025**	**3,204**	**5,229**	**29.29**
Exercisable, End of Year	**2,025**	**3,204**	**5,229**	**29.29**

For options exercised during the year, the weighted average market price of Cenovus's common shares at the date of exercise was $36.72.

	Outstanding & Exercisable TSARs (thousands of units)				
As at December 31, 2012 Range of Exercise Price ($)	TSARs	Performance TSARs	Total	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price ($)
20.00 to 29.99	1,087	1,899	**2,986**	**1.12**	**26.27**
30.00 to 39.99	886	1,305	**2,191**	**0.14**	**33.08**
40.00 to 49.99	52	-	**52**	**0.44**	**42.70**
	2,025	**3,204**	**5,229**	**0.70**	**29.29**

The closing price of Cenovus common shares on the TSX as at December 31, 2012 was $33.29.

B) Performance Share Units

Cenovus has granted Performance Share Units ("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 $124 million as at December 31, 2012 (December 31, 2011 – $55 million) in the Consolidated Balance Sheets for PSUs based on the market value of the Cenovus common shares as at December 31, 2012. The intrinsic value of vested PSUs was $nil as at December 31, 2012 and December 31, 2011 as PSUs are paid out upon vesting.

The following table summarizes the information related to the PSUs held by Cenovus employees as at December 31, 2012:

As at December 31, 2012 (thousands of units)	PSUs
Outstanding, Beginning of Year	**2,623**
Granted	**2,704**
Cancelled	**(183)**
Units in Lieu of Dividends	**114**
Outstanding, End of Year	**5,258**

C) Deferred Share Units

Under two Deferred Share Unit Plans, Cenovus directors, officers and employees may receive Deferred Share Units ("DSUs"), which are equivalent in value to a common share of the Company. 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 $36 million as at December 31, 2012 (December 31, 2011 – $35 million) in the Consolidated Balance Sheets for DSUs based on the market value of the Cenovus common shares as at December 31, 2012. 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, 2012:

As at December 31, 2012 (thousands of units)	DSUs
Outstanding, Beginning of Year	**1,042**
Granted to Directors	**64**
Granted from Annual Bonus Awards	**22**
Units in Lieu of Dividends	**30**
Exercised	**(74)**
Outstanding, End of Year	**1,084**

D) Total Stock-Based Compensation Expense (Recovery)

The following table summarizes the stock-based compensation expense (recovery) recorded for all plans within operating and general and administrative expenses on the Consolidated Statements of Earnings and Comprehensive Income:

	Three Months Ended		**Twelve Months Ended**	
For the period ended December 31,	**2012**	2011	**2012**	2011
NSRs	**5**	5	**27**	16
TSARs held by Cenovus employees	**(1)**	13	**(1)**	24
Encana Replacement TSARs held by Cenovus employees	**(1)**	(1)	**-**	(8)
PSUs	**7**	8	**46**	27
DSUs	**(1)**	2	**3**	4
	9	27	**75**	63

All amounts in $ millions, unless otherwise indicated

17. INTEREST IN JOINT OPERATIONS

On January 2, 2007, Cenovus became a 50 percent partner in an integrated North American heavy oil business. The integrated business is structured through two joint arrangements. The upstream entity, FCCL Partnership, is involved in the development and production of crude oil and is jointly controlled with ConocoPhillips. The refining entity, WRB Refining LP, includes two refineries in the U.S. and focuses on the refining of crude oil into petroleum and chemical products. WRB is jointly controlled with Phillips 66.

Cenovus recognizes its share of the assets, liabilities, revenues and expenses (proportionately consolidates) these joint operations with the results of operations included in the Oil Sands and Refining and Marketing segments, respectively. Cenovus's Consolidated Financial Statements include the following amounts related to these joint arrangements:

Statements of Earnings For the three months ended December 31,	FCCL Partnership [1] 2012	 2011	WRB Refining LP [1] 2012	 2011
Revenues	**847**	702	**1,792**	2,379
Expenses				
Purchased product	**-**	-	**1,470**	1,994
Operating, transportation and blending and realized (gain)/loss on risk management	**519**	406	**202**	144
Operating Cash Flow	**328**	296	**120**	241
Depreciation, depletion and amortization	**86**	60	**35**	76
Other expenses (income)	**(32)**	43	**(3)**	10
Net Earnings (Loss)	**274**	193	**88**	155

1. FCCL Partnership and WRB Refining LP are not separate tax paying entities. Income taxes related to the Partnerships' income are the responsibility of their respective Partners.

Statements of Earnings For the twelve months ended December 31,	FCCL Partnership [1] 2012	 2011	WRB Refining LP [1] 2012	 2011
Revenues	**3,132**	2,364	**9,160**	8,672
Expenses				
Purchased product	**-**	-	**7,339**	7,223
Operating, transportation and blending and realized (gain)/loss on risk management	**1,944**	1,397	**552**	473
Operating Cash Flow	**1,188**	967	**1,269**	976
Depreciation, depletion and amortization	**303**	205	**135**	130
Other expenses (income)	**1**	(136)	**4**	(4)
Net Earnings (Loss)	**884**	898	**1,130**	850

1. FCCL Partnership and WRB Refining LP are not separate tax paying entities. Income taxes related to the Partnerships' income are the responsibility of their respective Partners.

As at	FCCL Partnership **December 31, 2012**	 December 31, 2011	WRB Refining LP **December 31, 2012**	 December 31, 2011
Cash and Cash Equivalents	**388**	145	**172**	166
Other Current Assets	**761**	792	**1,111**	1,236
Long-term Assets	**7,599**	6,864	**3,087**	3,188
Current Liabilities	**350**	317	**566**	759
Long-term Liabilities	**137**	83	**58**	73

All amounts in $ millions, unless otherwise indicated

18. 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 excluding any amounts with respect to the Partnership Contribution Payable or Receivable. 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, Depreciation and Amortization ("Adjusted EBITDA"). These metrics are used to steward Cenovus's overall debt position as measures of Cenovus's overall financial strength.

Cenovus continues to target a Debt to Capitalization ratio of between 30 and 40 percent over the long-term.

As at	**December 31, 2012**	December 31, 2011
Long-Term Debt	**4,679**	3,527
Debt	**4,679**	3,527
Shareholders' Equity	**9,806**	9,406
Capitalization	**14,485**	12,933
Debt to Capitalization	**32%**	27%

Cenovus continues to target a Debt to Adjusted EBITDA of between 1.0 and 2.0 times over the long-term.

As at	**December 31, 2012**	December 31, 2011
Debt	**4,679**	3,527
Net Earnings	**993**	1,478
Add (deduct):		
Finance costs	**455**	447
Interest income	**(109)**	(124)
Income tax expense	**783**	729
Depreciation, depletion and amortization	**1,585**	1,295
Goodwill impairment	**393**	-
Exploration expense	**68**	-
Unrealized (gain) loss on risk management	**(57)**	(180)
Foreign exchange (gain) loss, net	**(20)**	26
(Gain) loss on divestiture of assets	**-**	(107)
Other (income) loss, net	**(5)**	4
Adjusted EBITDA	**4,086**	3,568
Debt to Adjusted EBITDA	**1.1x**	1.0x

It is Cenovus's intention to maintain investment grade credit ratings to help ensure it has continuous access to capital and the financial flexibility to fund its capital programs, meet its financial obligations and finance potential acquisitions. Cenovus will maintain a high level of capital discipline and manage its capital structure to ensure sufficient liquidity through all stages of the economic cycle. To manage the capital structure, Cenovus may adjust capital and operating spending, adjust dividends paid to shareholders, purchase shares for cancellation pursuant to normal course issuer bids, issue new shares, issue new debt, draw down on its credit facilities or repay existing debt.

As at December 31, 2012, Cenovus is in compliance with all of the terms of its debt agreements.

All amounts in $ millions, unless otherwise indicated

19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Cenovus's consolidated financial assets and financial liabilities consist of cash and cash equivalents, accounts receivable and accrued revenues, accounts payable and accrued liabilities, Partnership Contribution Receivable and Payable, partner loans, risk management assets and liabilities, long-term receivables, short-term borrowings and long-term debt. Risk management assets and liabilities arise from the use of derivative financial instruments. Fair values of financial assets and liabilities, summarized information related to risk management positions, and discussion of risks associated with financial assets and liabilities are presented as follows:

A) Fair Value of Financial Assets and Liabilities

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

The fair values of the Partnership Contribution Receivable and Payable, partner loans and long-term receivables approximate their carrying amount due to the specific non-tradeable nature of these instruments.

Risk management assets and liabilities are recorded at their estimated fair value based on mark-to-market accounting, using quoted market prices or, in their absence, third-party market indications and forecasts.

Long-term debt is carried at amortized cost. The estimated fair values of long-term borrowings have been determined based on prices sourced from market data. As at December 31, 2012, the carrying value of Cenovus's long-term debt accounted for using amortized cost was $4,679 million and the fair value was $5,582 million (December 31, 2011 carrying value – $3,527 million, fair value – $4,316 million).

B) Risk Management Assets and Liabilities

Net Risk Management Position

As at	**December 31, 2012**	December 31, 2011
Risk Management Assets		
Current asset	**283**	232
Long-term asset	**5**	52
	288	284
Risk Management Liabilities		
Current liability	**17**	54
Long-term liability	**1**	14
	18	68
Net Risk Management Asset (Liability)	**270**	216

Summary of Unrealized Risk Management Positions

	December 31, 2012			December 31, 2011		
	Risk Management			Risk Management		
As at	**Asset**	**Liability**	**Net**	Asset	Liability	Net
Commodity Prices						
Crude Oil	**221**	**16**	**205**	22	65	(43)
Natural Gas	**66**	**1**	**65**	247	3	244
Power	**1**	**1**	**-**	15	-	15
Total Fair Value	**288**	**18**	**270**	284	68	216

All amounts in $ millions, unless otherwise indicated

Net Fair Value Methodologies Used to Calculate Unrealized Risk Management Positions

As at	**December 31, 2012**	December 31, 2011
Prices actively quoted (Level 1)	**120**	226
Prices sourced from observable data or market corroboration (Level 2)	**150**	(10)
Total Fair Value	**270**	216

Prices actively quoted refers to the fair value of contracts valued using quoted prices in an active market. Prices sourced from observable data or market corroboration refers to the fair value of contracts valued in part using active quotes and in part using observable, market-corroborated data.

Net Fair Value of Commodity Price Positions

As at December 31, 2012	Notional Volumes	Term	Average Price	Fair Value
Crude Oil Contracts				
Fixed Price Contracts				
Brent Fixed Price [1]	18,500 bbls/d	2013	US$110.36/bbl	**23**
Brent Fixed Price [1]	18,500 bbls/d	2013	$111.72/bbl	**33**
WCS Differential [2]	49,200 bbls/d	2013	US$(20.74)/bbl	**145**
WCS Differential [2]	9,400 bbls/d	2014	US$(20.13)/bbl	**5**
Other Financial Positions [3]				**(1)**
Crude Oil Fair Value Position				**205**
Natural Gas Contracts				
Fixed Price Contracts				
NYMEX Fixed Price	166 MMcf/d	2013	US$4.64/Mcf	**66**
Other Fixed Price Contracts [4]				**(1)**
Natural Gas Fair Value Position				**65**
Power Purchase Contracts				
Power Fair Value Position				**-**

1. Brent fixed price positions consist of both Brent fixed price swaps and WTI swaps converted to Brent.
2. Cenovus has entered into fixed price swaps to protect against widening light/heavy price differentials for heavy crudes.
3. Other financial positions are part of ongoing operations to market the Company's production.
4. Cenovus has entered into other fixed price contracts to protect against widening price differentials between production areas and various sales points.

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

	Three Months Ended		**Twelve Months Ended**	
For the period ended December 31,	**2012**	2011	**2012**	2011
REALIZED GAIN (LOSS) [1]				
Crude Oil	**55**	(39)	**81**	(135)
Natural Gas	**47**	67	**247**	210
Refining	**(11)**	(17)	**7**	(14)
Power	**1**	1	**1**	7
	92	12	**336**	68
UNREALIZED GAIN (LOSS) [2]				
Crude Oil	**145**	(312)	**247**	106
Natural Gas	**(32)**	76	**(176)**	38
Refining	**4**	(9)	**1**	7
Power	**-**	3	**(15)**	29
	117	(242)	**57**	180
Gain (Loss) on Risk Management	**209**	(230)	**393**	248

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.

All amounts in $ millions, unless otherwise indicated

Reconciliation of Unrealized Risk Management Positions

	2012		2011
For the period ended December 31,	Fair Value	Total Unrealized Gain (Loss)	Total Unrealized Gain (Loss)
Fair Value of Contracts, Beginning of Year	216		
Change in fair value of contracts in place at beginning of year and contracts entered into during the year	393	393	248
Unrealized foreign exchange gain (loss) on U.S. dollar contracts	(3)	-	-
Fair value of contracts realized during the year	(336)	(336)	(68)
Fair Value of Contracts, End of Year	270	57	180

Commodity Price 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, with all other variables held constant. Management believes the price fluctuations identified in the table below are a reasonable measure of volatility. The impact of fluctuating commodity prices on the Company's open risk management positions as at December 31, 2012 could have resulted in unrealized gains (losses) impacting earnings before income tax for the year ended December 31, 2012 as follows:

Commodity	Sensitivity Range	Increase	Decrease
Crude oil commodity price	± US$10 per bbl applied to Brent & WTI hedges	(156)	156
Crude oil differential price	± US$5 per bbl applied to differential hedges tied to production	111	(111)
Natural gas commodity price	± $1 per mcf applied to NYMEX natural gas hedges	(55)	55
Natural gas basis price	± $0.10 per mcf applied to natural gas basis hedges	1	(1)
Power commodity price	± $25 per MWHr applied to power hedge	19	(19)

C) Risks Associated with Financial Assets and Liabilities

Commodity Price Risk

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

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

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

Power – The Company has in place a Canadian dollar denominated derivative contract, which commenced January 1, 2007 for a period of 11 years, to manage a portion of its electricity consumption costs.

Credit Risk

Credit risk arises from the potential that the Company may incur a loss if a counterparty to a financial instrument fails to meet its obligation in accordance with agreed terms. This credit risk exposure is mitigated through the use of Board-approved credit policies governing the Company's credit portfolio and with credit practices that limit transactions according to counterparties' credit quality. Agreements are entered into with major financial institutions with investment grade credit ratings and with large commercial counterparties, most of which have investment grade credit ratings. A substantial portion of Cenovus's accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risks. At December 31, 2012 and 2011, substantially all of the Company's accounts receivable were current. As at December 31, 2012, 87 percent (December 31, 2011 – 92 percent) of Cenovus's accounts receivable and financial derivative credit exposures are with investment grade counterparties.

All amounts in $ millions, unless otherwise indicated

As at December 31, 2012, Cenovus had two counterparties (December 31, 2011 – two counterparties) whose net settlement position individually account for more than 10 percent of the fair value of the outstanding in-the-money net financial and physical contracts by counterparty. The maximum credit risk exposure associated with accounts receivable and accrued revenues, risk management assets, Partnership Contribution Receivable, partner loans receivable, and long-term receivables is the total carrying value. The majority of this credit risk resides with A rated or higher counterparties. Cenovus's exposure to its counterparties is acceptable and within credit policy tolerances.

Liquidity Risk

Liquidity risk is the risk that Cenovus will not be able to meet all of its financial obligations as they become due. Liquidity risk also includes the risk of not being able to liquidate assets in a timely manner at a reasonable price. Cenovus manages its liquidity risk through the active management of cash and debt and by maintaining appropriate access to credit. As disclosed in Note 18, 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. It is Cenovus's intention to maintain investment grade credit ratings on its senior unsecured debt.

Cenovus manages its liquidity risk by ensuring that it has access to multiple sources of capital including: cash and cash equivalents, cash from operating activities, undrawn credit facilities, commercial paper and availability under its shelf prospectuses. As at December 31, 2012, Cenovus had $3.0 billion available on its committed credit facility. In addition, Cenovus had in place a Canadian debt shelf prospectus for $1.5 billion and unused capacity of US$750 million under a U.S. debt shelf prospectus, the availability of which are dependent on market conditions.

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

	Less than 1 Year	1-3 Years	4-5 Years	Thereafter	**Total**
Accounts Payable and Accrued Liabilities	2,650	-	-	-	**2,650**
Risk Management Liabilities	17	1	-	-	**18**
Long-Term Debt [1]	254	1,263	432	7,051	**9,000**
Partnership Contribution Payable [1]	486	972	609	-	**2,067**
Other [1]	-	9	4	4	**17**

1. Principal and interest, including current portion, if any.

Foreign Exchange Risk

Foreign exchange risk arises from changes in foreign exchange rates that may affect the fair value of 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 dollars can have a significant effect on reported results.

As disclosed in Note 5, Cenovus's foreign exchange (gain) loss primarily includes unrealized foreign exchange gains and losses on the translation of the U.S. dollar debt issued from Canada and the translation of the U.S. dollar Partnership Contribution Receivable issued from Canada. As at December 31, 2012, Cenovus had US$4,750 million in U.S. dollar debt issued from Canada (US$3,500 million as at December 31, 2011) and US$1,791 million related to the U.S. dollar Partnership Contribution Receivable (US$2,157 million as at December 31, 2011). A $0.01 change in the U.S. to Canadian dollar exchange rate would have resulted in a $30 million change in foreign exchange (gain) loss as at December 31, 2012 (December 31, 2011 – $13 million).

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.

As at December 31, 2012, the increase or decrease in net earnings for a one percentage point change in interest rates on floating rate debt amounts to $nil (December 31, 2011 – $nil). This assumes the amount of fixed and floating debt remains unchanged from the respective balance sheet dates.

20. COMMITMENTS AND CONTINGENCIES

Legal Proceedings

Cenovus is involved in a limited number of legal claims associated with the normal course of operations. Cenovus believes it has made adequate provisions for such legal claims. There are no individually or collectively significant claims.

21. SUBSEQUENT EVENT

Subsequent to December 31, 2012, Management decided to divest its Lower Shaunavon and certain of its Bakken properties in Saskatchewan. The public sales process is expected to be launched in late February 2013. The land base associated with these properties is relatively small and does not offer sufficient scalability to be material to Cenovus's overall asset portfolio. Operating results from these properties are included in the Conventional segment.