



Cenovus Energy Inc.

Consolidated Financial Statements

For the Year Ended December 31, 2013

(Canadian Dollars)

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 three independent directors. The Audit Committee has a written mandate that complies with the current requirements of Canadian securities legislation and the United States *Sarbanes – Oxley Act of 2002* and voluntarily complies, in principle, with the Audit Committee guidelines of the New York Stock Exchange. The Audit Committee meets with Management and the independent auditors 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, 2013. In making its assessment, Management has used the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") framework in Internal Control – Integrated Framework (1992) 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, 2013.

PricewaterhouseCoopers LLP, an independent firm of Chartered Accountants, was appointed to audit and provide independent opinions on both the Consolidated Financial Statements and internal control over financial reporting as at December 31, 2013, as stated in their Auditor's Report dated February 12, 2014. PricewaterhouseCoopers LLP has provided such opinions.

(signed)

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

February 12, 2014

(signed)

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

Independent Auditor's Report

To the Shareholders of Cenovus Energy Inc.

We have completed an integrated audit of Cenovus Energy Inc.'s 2013, 2012 and 2011 Consolidated Financial Statements and its internal control over financial reporting as at December 31, 2013. Our opinions, based on our audits, are presented below.

Report on the Consolidated Financial Statements

We have audited the accompanying Consolidated Financial Statements of Cenovus Energy Inc., which comprise the Consolidated Balance Sheets as at December 31, 2013, December 31, 2012 and January 1, 2012 and the Consolidated Statements of Earnings and Comprehensive Income, Shareholders' Equity and Cash Flows for each of the three years ended December 31, 2013, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these Consolidated Financial Statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the Consolidated Financial Statements present fairly, in all material respects, the financial position of Cenovus Energy Inc. as at December 31, 2013, December 31, 2012 and January 1, 2012 and its financial performance and cash flows for each of the three years in the period ended December 31, 2013 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Other Matter

As discussed in Note 4 to the Consolidated Financial Statements, Cenovus Energy Inc. changed its method of accounting for employee benefits.

Report on Internal Control over Financial Reporting

We have also audited Cenovus Energy Inc.'s internal control over financial reporting as at December 31, 2013, based on criteria established in Internal Control – Integrated Framework (1992), issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

Management's Responsibility for Internal Control over Financial Reporting

Management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report of Management.

Auditor's Responsibility

Our responsibility is to express an opinion on Cenovus Energy Inc.'s internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of

the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control, based on the assessed risk, and performing such other procedures as we consider necessary in the circumstances.

We believe that our audit provides a reasonable basis for our audit opinion on Cenovus Energy Inc.'s internal control over financial reporting.

Definition of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with 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.

Inherent Limitations

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Opinion

In our opinion, Cenovus Energy Inc. maintained, in all material respects, effective internal control over financial reporting as at December 31, 2013 based on criteria established in Internal Control – Integrated Framework (1992), issued by COSO.

(signed)

PricewaterhouseCoopers LLP

Chartered Accountants
Calgary, Alberta, Canada

February 12, 2014

CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME

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

	Notes	2013	2012 (Note 4)	2011 (Note 4)
Revenues	1			
Gross Sales		18,993	17,229	16,185
Less: Royalties		336	387	489
		18,657	16,842	15,696
Expenses	1			
Purchased Product		10,399	9,223	9,090
Transportation and Blending		2,074	1,798	1,369
Operating		1,798	1,667	1,398
Production and Mineral Taxes		35	37	36
(Gain) Loss on Risk Management	32	293	(393)	(248)
Depreciation, Depletion and Amortization	17,18	1,833	1,585	1,295
Goodwill Impairment	20	-	393	-
Exploration Expense		114	68	-
General and Administrative		349	350	295
Finance Costs	6	529	455	447
Interest Income	7	(96)	(109)	(124)
Foreign Exchange (Gain) Loss, Net	8	208	(20)	26
Research Costs		24	15	8
(Gain) Loss on Divestiture of Assets	18	1	-	(107)
Other (Income) Loss, Net		2	(5)	4
Earnings Before Income Tax		1,094	1,778	2,207
Income Tax Expense	9	432	783	729
Net Earnings		662	995	1,478
Other Comprehensive Income (Loss), Net of Tax				
<i>Items That Will Not be Reclassified to Profit or Loss:</i>				
Actuarial Gain (Loss) Relating to Pension and Other Post-Retirement Benefits		14	(4)	(12)
<i>Items That May be Subsequently Reclassified to Profit or Loss:</i>				
Change in Value of Available for Sale Financial Assets		10	-	-
Foreign Currency Translation Adjustment		117	(24)	48
Total Other Comprehensive Income (Loss), Net of Tax		141	(28)	36
Comprehensive Income		803	967	1,514
Net Earnings Per Common Share	10			
Basic		\$0.88	\$1.32	\$1.96
Diluted		\$0.87	\$1.31	\$1.95

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

As at
(\$ millions)

	Notes	December 31, 2013	December 31, 2012 (Note 4)	January 1, 2012 (Note 4)
Assets				
Current Assets				
Cash and Cash Equivalents	11	2,452	1,160	495
Accounts Receivable and Accrued Revenues	12	1,874	1,464	1,405
Income Tax Receivable		15	-	-
Current Portion of Partnership Contribution Receivable	13	-	384	372
Inventories	14	1,259	1,288	1,291
Risk Management	32	10	283	232
Assets Held for Sale	15	-	-	116
		5,610	4,579	3,911
Exploration and Evaluation Assets	1,16	1,473	1,285	880
Property, Plant and Equipment, Net	1,17	17,334	16,152	14,324
Partnership Contribution Receivable	13	-	1,398	1,822
Risk Management	32	-	5	52
Income Tax Receivable		-	-	29
Other Assets	19	68	58	44
Goodwill	1,20	739	739	1,132
Total Assets		25,224	24,216	22,194
Liabilities and Shareholders' Equity				
Current Liabilities				
Accounts Payable and Accrued Liabilities	21	2,937	2,650	2,579
Income Tax Payable		268	217	329
Current Portion of Partnership Contribution Payable	13	438	386	372
Risk Management	32	136	17	54
Liabilities Related to Assets Held for Sale	15	-	-	54
		3,779	3,270	3,388
Long-Term Debt	22	4,997	4,679	3,527
Partnership Contribution Payable	13	1,087	1,426	1,853
Risk Management	32	3	1	14
Decommissioning Liabilities	23	2,370	2,315	1,777
Other Liabilities	24	180	183	158
Deferred Income Taxes	9	2,862	2,560	2,093
Total Liabilities		15,278	14,434	12,810
Shareholders' Equity		9,946	9,782	9,384
Total Liabilities and Shareholders' Equity		25,224	24,216	22,194
Commitments and Contingencies	35			

See accompanying Notes to Consolidated Financial Statements.

Approved by the Board of Directors

(signed)

Michael A. Grandin
Director
Cenovus Energy Inc.

(signed)

Colin Taylor
Director
Cenovus Energy Inc.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(\$ millions)

	Share Capital	Paid in Surplus	Retained Earnings	AOCI ⁽¹⁾	Total
	(Note 26)	(Note 26)		(Note 27)	
Balance as at January 1, 2011, as Previously Reported	3,716	4,083	525	71	8,395
Cumulative Effective of Change in Accounting Policy (Note 4)	-	-	-	(10)	(10)
Balance as at January 1, 2011, Restated	3,716	4,083	525	61	8,385
Net Earnings	-	-	1,478	-	1,478
Other Comprehensive Income (Loss)	-	-	-	36	36
Total Comprehensive Income (Loss)	-	-	1,478	36	1,514
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	97	9,384
Net Earnings	-	-	995	-	995
Other Comprehensive Income (Loss)	-	-	-	(28)	(28)
Total Comprehensive Income (Loss)	-	-	995	(28)	967
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	1,730	69	9,782
Net Earnings	-	-	662	-	662
Other Comprehensive Income (Loss)	-	-	-	141	141
Total Comprehensive Income (Loss)	-	-	662	141	803
Common Shares Issued Under Option Plans	31	-	-	-	31
Common Shares Cancelled	(3)	3	-	-	-
Stock-Based Compensation Expense	-	62	-	-	62
Dividends on Common Shares	-	-	(732)	-	(732)
Balance as at December 31, 2013	3,857	4,219	1,660	210	9,946

(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	2013	2012	2011
Operating Activities				
Net Earnings		662	995	1,478
Depreciation, Depletion and Amortization		1,833	1,585	1,295
Goodwill Impairment		-	393	-
Exploration Expense		50	68	-
Deferred Income Taxes	9	244	474	575
Cash Tax on Divestiture of Assets		-	-	13
Unrealized (Gain) Loss on Risk Management	32	415	(57)	(180)
Unrealized Foreign Exchange (Gain) Loss	8	40	(70)	(42)
(Gain) Loss on Divestiture of Assets		1	-	(107)
Unwinding of Discount on Decommissioning Liabilities	6,23	97	86	75
Other		267	169	169
		3,609	3,643	3,276
Net Change in Other Assets and Liabilities		(120)	(113)	(82)
Net Change in Non-Cash Working Capital		50	(110)	79
Cash From Operating Activities		3,539	3,420	3,273
Investing Activities				
Capital Expenditures – Exploration and Evaluation Assets	16	(331)	(654)	(527)
Capital Expenditures – Property, Plant and Equipment	17	(2,938)	(2,795)	(2,265)
Proceeds From Divestiture of Assets		258	76	173
Cash Tax on Divestiture of Assets		-	-	(13)
Net Change in Investments and Other	13	1,486	(13)	(28)
Net Change in Non-Cash Working Capital		6	50	130
Cash (Used in) Investing Activities		(1,519)	(3,336)	(2,530)
Net Cash Provided (Used) before Financing Activities		2,020	84	743
Financing Activities				
Net Issuance (Repayment) of Short-Term Borrowings		(8)	3	(9)
Issuance of U.S. Unsecured Notes	22	814	1,219	-
Repayment of U.S. Unsecured Notes	22	(825)	-	-
Proceeds on Issuance of Common Shares		28	37	48
Dividends Paid on Common Shares	10	(732)	(665)	(603)
Other		(3)	(2)	6
Cash From (Used in) Financing Activities		(726)	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		1,292	665	195
Cash and Cash Equivalents, Beginning of Year		1,160	495	300
Cash and Cash Equivalents, End of Year		2,452	1,160	495
Supplementary Cash Flow Information	34			

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

All amounts in \$ millions, unless otherwise indicated
For the year ended December 31, 2013

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 liquids ("NGLs") and natural gas 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 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 cash flow. The Company's reportable segments are:

- **Oil Sands**, which includes the development and production of Cenovus's bitumen assets at Foster Creek, Christina Lake and Narrows Lake as well as projects in the early stages of development, such as Grand Rapids and Telephone Lake. The Athabasca natural gas assets also form part of this segment. 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. This segment also includes 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, research costs 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 operating and reportable segments shown above have been changed from those presented in prior periods to match Cenovus's new operating structure. All prior periods have been restated to reflect this presentation. As a result, for the years ended December 31, 2012 and 2011, segment income of \$275 million and \$204 million, respectively, was reclassified from Oil Sands to Conventional. In addition to the restatement required due to changes in operating segments, research activities previously included in operating expense have been reclassified to conform to the presentation adopted for the year ended December 31, 2013.

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, 2013

A) Results of Operations – Segment and Operational Information

For the years ended December 31,	Oil Sands			Conventional			Refining and Marketing		
	2013	2012	2011	2013	2012	2011	2013	2012	2011
Revenues									
Gross Sales	3,912	3,356	2,659	2,980	2,800	2,960	12,706	11,356	10,625
Less: Royalties	132	186	228	204	201	261	-	-	-
	3,780	3,170	2,431	2,776	2,599	2,699	12,706	11,356	10,625
Expenses									
Purchased Product	-	-	-	-	-	-	11,004	9,506	9,149
Transportation and Blending	1,749	1,501	1,086	325	297	283	-	-	-
Operating	555	426	330	708	662	594	540	581	475
Production and Mineral Taxes	-	-	-	35	37	36	-	-	-
(Gain) Loss on Risk Management	(37)	(64)	50	(104)	(268)	(132)	19	(4)	14
Operating Cash Flow	1,513	1,307	965	1,812	1,871	1,918	1,143	1,273	987
Depreciation, Depletion and Amortization	446	339	246	1,170	1,048	879	138	146	130
Goodwill Impairment	-	-	-	-	393	-	-	-	-
Exploration Expense	-	-	-	114	68	-	-	-	-
Segment Income (Loss)	1,067	968	719	528	362	1,039	1,005	1,127	857

For the years ended December 31,	Corporate and Eliminations			Consolidated		
	2013	2012	2011	2013	2012	2011
Revenues						
Gross Sales	(605)	(283)	(59)	18,993	17,229	16,185
Less: Royalties	-	-	-	336	387	489
	(605)	(283)	(59)	18,657	16,842	15,696
Expenses						
Purchased Product	(605)	(283)	(59)	10,399	9,223	9,090
Transportation and Blending	-	-	-	2,074	1,798	1,369
Operating	(5)	(2)	(1)	1,798	1,667	1,398
Production and Mineral Taxes	-	-	-	35	37	36
(Gain) Loss on Risk Management	415	(57)	(180)	293	(393)	(248)
	(410)	59	181	4,058	4,510	4,051
Depreciation, Depletion and Amortization	79	52	40	1,833	1,585	1,295
Goodwill Impairment	-	-	-	-	393	-
Exploration Expense	-	-	-	114	68	-
Segment Income (Loss)	(489)	7	141	2,111	2,464	2,756
General and Administrative	349	350	295	349	350	295
Finance Costs	529	455	447	529	455	447
Interest Income	(96)	(109)	(124)	(96)	(109)	(124)
Foreign Exchange (Gain) Loss, Net	208	(20)	26	208	(20)	26
Research Costs	24	15	8	24	15	8
(Gain) Loss on Divestiture of Assets	1	-	(107)	1	-	(107)
Other (Income) Loss, Net	2	(5)	4	2	(5)	4
	1,017	686	549	1,017	686	549
Earnings Before Income Tax				1,094	1,778	2,207
Income Tax Expense				432	783	729
Net Earnings				662	995	1,478

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

All amounts in \$ millions, unless otherwise indicated

For the year ended December 31, 2013

B) Financial Results by Upstream Product

For the years ended December 31,	Crude Oil ⁽¹⁾								
	Oil Sands			Conventional			Total		
	2013	2012	2011	2013	2012	2011	2013	2012	2011
Revenues									
Gross Sales	3,850	3,307	2,585	2,373	2,289	2,124	6,223	5,596	4,709
Less: Royalties	131	186	226	196	195	249	327	381	475
	3,719	3,121	2,359	2,177	2,094	1,875	5,896	5,215	4,234
Expenses									
Transportation and Blending	1,748	1,499	1,084	305	278	249	2,053	1,777	1,333
Operating	531	401	303	495	441	350	1,026	842	653
Production and Mineral Taxes	-	-	-	32	34	27	32	34	27
(Gain) Loss on Risk Management	(33)	(46)	67	(43)	(39)	63	(76)	(85)	130
Operating Cash Flow	1,473	1,267	905	1,388	1,380	1,186	2,861	2,647	2,091

(1) Includes NGLs.

For the years ended December 31,	Natural Gas								
	Oil Sands			Conventional			Total		
	2013	2012	2011	2013	2012	2011	2013	2012	2011
Revenues									
Gross Sales	38	38	63	594	498	825	632	536	888
Less: Royalties	1	-	2	8	6	12	9	6	14
	37	38	61	586	492	813	623	530	874
Expenses									
Transportation and Blending	1	2	2	20	19	34	21	21	36
Operating	18	23	24	209	217	240	227	240	264
Production and Mineral Taxes	-	-	-	3	3	9	3	3	9
(Gain) Loss on Risk Management	(4)	(18)	(17)	(61)	(229)	(195)	(65)	(247)	(212)
Operating Cash Flow	22	31	52	415	482	725	437	513	777

For the years ended December 31,	Other								
	Oil Sands			Conventional			Total		
	2013	2012	2011	2013	2012	2011	2013	2012	2011
Revenues									
Gross Sales	24	11	11	13	13	11	37	24	22
Less: Royalties	-	-	-	-	-	-	-	-	-
	24	11	11	13	13	11	37	24	22
Expenses									
Transportation and Blending	-	-	-	-	-	-	-	-	-
Operating	6	2	3	4	4	4	10	6	7
Production and Mineral Taxes	-	-	-	-	-	-	-	-	-
(Gain) Loss on Risk Management	-	-	-	-	-	-	-	-	-
Operating Cash Flow	18	9	8	9	9	7	27	18	15

For the years ended December 31,	Total Upstream								
	Oil Sands			Conventional			Total		
	2013	2012	2011	2013	2012	2011	2013	2012	2011
Revenues									
Gross Sales	3,912	3,356	2,659	2,980	2,800	2,960	6,892	6,156	5,619
Less: Royalties	132	186	228	204	201	261	336	387	489
	3,780	3,170	2,431	2,776	2,599	2,699	6,556	5,769	5,130
Expenses									
Transportation and Blending	1,749	1,501	1,086	325	297	283	2,074	1,798	1,369
Operating	555	426	330	708	662	594	1,263	1,088	924
Production and Mineral Taxes	-	-	-	35	37	36	35	37	36
(Gain) Loss on Risk Management	(37)	(64)	50	(104)	(268)	(132)	(141)	(332)	(82)
Operating Cash Flow	1,513	1,307	965	1,812	1,871	1,918	3,325	3,178	2,883

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

All amounts in \$ millions, unless otherwise indicated
For the year ended December 31, 2013

C) Geographic Information

For the years ended December 31,	Canada			United States			Consolidated		
	2013	2012	2011	2013	2012	2011	2013	2012	2011
Revenues									
Gross Sales	8,943	8,069	7,513	10,050	9,160	8,672	18,993	17,229	16,185
Less: Royalties	336	387	489	-	-	-	336	387	489
	8,607	7,682	7,024	10,050	9,160	8,672	18,657	16,842	15,696
Expenses									
Purchased Product	2,022	1,884	1,867	8,377	7,339	7,223	10,399	9,223	9,090
Transportation and Blending	2,074	1,798	1,369	-	-	-	2,074	1,798	1,369
Operating	1,276	1,108	944	522	559	454	1,798	1,667	1,398
Production and Mineral Taxes	35	37	36	-	-	-	35	37	36
(Gain) Loss on Risk Management	275	(385)	(255)	18	(8)	7	293	(393)	(248)
	2,925	3,240	3,063	1,133	1,270	988	4,058	4,510	4,051
Depreciation, Depletion and Amortization	1,695	1,439	1,165	138	146	130	1,833	1,585	1,295
Goodwill Impairment	-	393	-	-	-	-	-	393	-
Exploration Expense	114	68	-	-	-	-	114	68	-
Segment Income (Loss)	1,116	1,340	1,898	995	1,124	858	2,111	2,464	2,756

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.

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 \$926 million (2012 - \$671 million; 2011 - \$700 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, 2013, Cenovus had three customers (2012 - three; 2011 - two) 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 \$7,032 million, \$2,711 million and \$1,799 million, respectively (2012 - \$3,928 million, \$3,300 million, and \$2,839 million; 2011 - \$7,324 million and \$2,683 million).

D) Joint Operations

A significant portion of the operating cash flows from the Oil Sands and Refining and Marketing segments are derived through jointly controlled entities, FCCL Partnership ("FCCL") and WRB Refining LP ("WRB"), respectively. These joint arrangements, in which Cenovus has a 50 percent ownership interest, are classified as joint operations and, as such, Cenovus recognizes its share of the assets, liabilities, revenues and expenses.

FCCL, which is involved in the development and production of crude oil in Canada, is jointly controlled with ConocoPhillips and operated by Cenovus. WRB has two refineries in the U.S. and focuses on the refining of crude oil into petroleum and chemical products. WRB is jointly controlled with and operated by Phillips 66. Cenovus's share of operating cash flow from FCCL and WRB for the year ended December 31, 2013 was \$1,383 million and \$1,144 million, respectively (2012 - \$1,188 million and \$1,274 million; 2011 - \$967 million and \$981 million).

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

By Segment

As at	E&E ⁽¹⁾			PP&E ⁽²⁾		
	December 31, 2013	December 31, 2012	January 1, 2012	December 31, 2013	December 31, 2012	January 1, 2012
Oil Sands	1,313	1,064	699	7,401	6,041	4,897
Conventional	160	221	181	6,291	6,652	5,995
Refining and Marketing	-	-	-	3,269	3,088	3,200
Corporate and Eliminations	-	-	-	373	371	232
Consolidated	1,473	1,285	880	17,334	16,152	14,324

As at	Goodwill			Total Assets		
	December 31, 2013	December 31, 2012	January 1, 2012	December 31, 2013	December 31, 2012	January 1, 2012
Oil Sands	242	242	242	9,549	9,658	8,578
Conventional	497	497	890	7,235	7,618	7,512
Refining and Marketing	-	-	-	5,491	5,018	4,927
Corporate and Eliminations	-	-	-	2,949	1,922	1,177
Consolidated	739	739	1,132	25,224	24,216	22,194

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

(2) Property, plant and equipment ("PP&E").

By Geographic Region

As at	E&E			PP&E		
	December 31, 2013	December 31, 2012	January 1, 2012	December 31, 2013	December 31, 2012	January 1, 2012
Canada	1,473	1,285	880	14,066	13,065	11,124
United States	-	-	-	3,268	3,087	3,200
Consolidated	1,473	1,285	880	17,334	16,152	14,324

As at	Goodwill			Total Assets		
	December 31, 2013	December 31, 2012	January 1, 2012	December 31, 2013	December 31, 2012	January 1, 2012
Canada	739	739	1,132	20,548	19,744	17,536
United States	-	-	-	4,676	4,472	4,658
Consolidated	739	739	1,132	25,224	24,216	22,194

F) Capital Expenditures ⁽¹⁾

For the years ended December 31,	2013	2012	2011
Capital			
Oil Sands	1,883	1,693	1,098
Conventional	1,191	1,366	1,105
Refining and Marketing	107	118	393
Corporate	81	191	127
	3,262	3,368	2,723
Acquisition Capital			
Oil Sands ⁽²⁾	27	69	40
Conventional	5	45	29
Corporate	-	-	2
	3,294	3,482	2,794

(1) Includes expenditures on PP&E and E&E assets.

(2) 2012 asset acquisition included the assumption of a decommissioning liability of \$33 million.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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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 of Cenovus were approved by the Board of Directors on February 12, 2014.

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 the power to govern their financial and operating policies. 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. The Company recognizes its share of assets, liabilities, revenues and expenses of a joint operation. Joint ventures arise when the Company has rights to the net assets of the arrangement. Joint ventures are accounted for under the equity method.

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 at the average rate 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 and Comprehensive Income.

C) Revenue and Interest Income Recognition

Sales of Product

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.

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.

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Interest Income

Interest income is recognized as the interest accrues using the effective interest method.

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) Production and Mineral Taxes

Costs paid to non-mineral interest owners based on production of crude oil, natural gas and NGLs are recognized when the product is sold.

F) 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 and if the Company decides not to continue the exploration and evaluation activity, the unrecoverable accumulated costs are expensed as exploration expense.

G) 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 recognized in net earnings.
- 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 recognized in net earnings.
- 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 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.

H) Income Taxes

Income taxes comprise current and deferred taxes. Current and deferred 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.

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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.

I) Net Earnings per Share Amounts

Basic net earnings per common 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.

J) 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.

K) 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.

L) Assets (Disposal Group) Held for Sale

Non-current assets or disposal groups are classified as held for sale when their carrying amount will be principally recovered through a sales transaction rather than through continued use and a sales transaction is highly probable. Assets held for sale are recorded at the lower of carrying value and fair value less costs of disposal.

M) 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 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.

Once technical feasibility and commercial viability have been established for a field/project/area, the carrying value of the E&E assets associated with that field/area/project is tested for impairment. The carrying value, net of any impairment loss, is then reclassified as PP&E.

E&E costs are subject to regular technical, commercial and Management review to confirm the continued intent to develop the resources. If a field/project/area is determined not to be technically feasible and commercially viable, and Management decides not to continue the exploration and evaluation activity, the unrecoverable costs are charged to exploration expense in the period in which the determination occurs.

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

N) Property, Plant and Equipment

Development and Production Assets

Development and production assets are stated at cost less accumulated depreciation, depletion, amortization ("DD&A") and net impairment losses. Development and production assets are capitalized on an area-by-area basis and include all costs associated with the development and production of the crude oil and natural gas properties, as well as any E&E expenditures incurred in finding commercial 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.

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Costs accumulated within each area are depleted using the unit-of-production method based on estimated proved reserves determined using estimated future 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.

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.

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 development and production assets are recognized in net earnings.

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 refining assets are stated at cost less accumulated depreciation and net impairment losses.

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. Maintenance and repairs are expensed as incurred.

Capitalized costs are not subject to depreciation until the asset is available for use, after which they 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 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 25 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. Assets under construction are not subject to depreciation until they are available for use. 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.

O) Impairment

Non-Financial Assets

PP&E and E&E assets are assessed for impairment at least annually or when facts and circumstances suggest that the carrying amount may exceed its recoverable amount. The recoverable amount is determined as the greater of an asset's or cash-generating unit's ("CGU") value-in-use ("VIU") and fair value less costs of disposal ("FVLCOD"). VIU is estimated as the discounted present value of the future cash flows expected to arise from the continuing use of a CGU or an asset. FVLCOD is based on the discounted after-tax cash flows of reserves and resources using forecast prices and costs as estimated by Cenovus's independent qualified reserves evaluators and an evaluation of comparable asset transactions.

The impairment test is performed at the CGU for development and production assets and other upstream assets. E&E assets are allocated to a related CGU containing development and production assets for the purposes of testing for impairment. Corporate assets are allocated to the CGUs to which they contribute to the future cash flows. For refining assets, the impairment test is performed at each refinery independently.

Impairment losses on PP&E are recognized in the Consolidated Statements of Earnings and Comprehensive Income as additional DD&A and are separately disclosed. An impairment of E&E assets is recognized as exploration expense in the Consolidated Statements of Earnings and Comprehensive Income.

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Goodwill is assessed for impairment at least annually. To assess impairment, the recoverable amount of the CGU to which the goodwill relates is compared to the carrying amount. 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.

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.

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 flow 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.

P) Borrowing Costs

Borrowing costs are expensed as incurred unless there is a qualifying asset. Borrowing costs directly associated with the acquisition, construction or production of a qualifying asset are capitalized when a substantial period of time is required to make the asset ready for its intended use. Capitalization of borrowing costs ceases when the asset is in the location and condition necessary for its intended use.

Q) 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 within PP&E.

R) 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.

S) 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 and Comprehensive Income.

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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 and refining facilities. 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. Increases in the decommissioning liabilities resulting from the passage of time are recognized as a finance cost in the Consolidated Statements of Earnings and Comprehensive Income.

Actual expenditures incurred are charged against the accumulated liability.

T) 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.

U) Stock-Based Compensation

Cenovus has a number of cash and 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") and deferred share units ("DSUs").

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 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 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 and Deferred Share Units

PSUs 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 compensation costs over the vesting period. Fluctuations in the fair values are recognized as compensation costs in the period they occur.

V) Financial Instruments

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 and Comprehensive Income.

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 assets 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.

The Company's consolidated financial assets include cash and cash equivalents, accounts receivable and accrued revenues, partner loans receivable, the Partnership Contribution Receivable, risk management assets and long-term receivables. The Company's financial liabilities include accounts payable and accrued liabilities, partner loans

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payable, the Partnership Contribution Payable, derivative financial instruments, short-term borrowings and long-term debt.

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.

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, partner loans receivable, the Partnership Contribution Receivable 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.

Held to Maturity Investments

"Held-to-maturity investments" are measured at amortized cost using the effective interest method of amortization.

Available for Sale Financial Assets

"Available for sale financial assets" are measured at fair value, with changes in the 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.

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, partner loans payable, the Partnership Contribution Payable, 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.

W) Reclassification

Certain information provided for prior years has been reclassified to conform to the presentation adopted in 2013.

X) Recent Accounting Pronouncements

New Standards and Interpretations not yet Adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after January 1, 2014 and have not been applied in preparing the Consolidated Financial Statements for the year ended December 31, 2013. The standards and interpretations applicable to the Company are as follows and will be adopted on their respective effective dates:

Financial Instruments

The IASB intends to replace International Accounting Standard 39, "Financial Instruments: Recognition and Measurement" ("IAS 39") with IFRS 9, "Financial Instruments" ("IFRS 9"). IFRS 9 will be published in three phases, of which two phases have been published.

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Phases one and two address accounting for financial assets and financial liabilities, and hedge accounting, respectively. The third phase will address impairment of financial instruments.

For financial assets, IFRS 9 uses 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 in IFRS 9 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. For financial liabilities, IFRS 9 retains most of the IAS 39 requirements; 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.

IFRS 9 introduces a simplified hedge accounting model, aligning hedge accounting more closely with risk management. In addition, improvements have been made to hedge accounting and risk management disclosure requirements. Cenovus does not currently apply hedge accounting.

A mandatory effective date for IFRS 9 in its entirety will be announced when the project is closer to completion. Early adoption of the two completed phases is permitted only if adopted in their entirety at the beginning of a fiscal period. The Company is currently evaluating the impact of adopting IFRS 9 on the Consolidated Financial Statements.

Offsetting Financial Assets and Financial Liabilities

In December 2011, the IASB issued amendments to IAS 32, *Financial Instruments: Presentation* ("IAS 32"), to clarify the requirements for offsetting financial assets and liabilities. The amendments clarify that the right to offset must be available on the current date and cannot be contingent on a future event. The amendments to IAS 32 are effective for annual periods beginning on or after January 1, 2014, requiring retrospective application. IAS 32 will not have a significant impact on the Consolidated Financial Statements.

4. CHANGE IN ACCOUNTING POLICIES

New and Amended Standards Adopted

The Company adopted the following new standards and amendments to standards:

Joint Arrangements, Consolidation, Associates and Disclosures

Effective January 1, 2013, the Company adopted, as required, IFRS 10, *Consolidated Financial Statements* ("IFRS 10"), IFRS 11, *Joint Arrangements* ("IFRS 11"), IFRS 12, *Disclosure of Interests in Other Entities* ("IFRS 12") as well as the amendments to IAS 28, *Investments in Associates and Joint Ventures* ("IAS 28").

IFRS 10 revised the definition of control to include three elements: (1) power over an investee; (2) exposure to variable returns from its involvement with the investee and (3) the ability to use its power to affect returns from the investee. Cenovus reviewed its consolidation methodology and determined that the adoption of IFRS 10 did not result in a change in the consolidation status of its subsidiaries and investees.

Under IFRS 11, a joint arrangement is classified as either a joint operation or a joint venture depending on the rights and obligations of the parties to the arrangement. Under a joint operation, parties have rights to the assets and obligations for the liabilities of the arrangement and account for their share of assets, liabilities, revenues and expenses. Under a joint venture, parties have the rights to the net assets of the arrangement and account for the arrangement as an investment using the equity method. Cenovus performed a comprehensive review of its interest in other entities and identified two individually significant interests, FCCL and WRB, for which it shares joint control. Cenovus reviewed these joint arrangements considering their structure, the legal form of the separate vehicles, the contractual terms of the arrangements and other facts and circumstances. The application of the Company's accounting policy under IFRS 11 requires judgment in determining the classification of these joint arrangements. A discussion of the judgments used in the Company's assessment of its joint arrangements can be found in Note 5. 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. There has been no impact on the recognized assets, liabilities and comprehensive income of the Company with the application of IFRS 11.

IFRS 12 requires disclosures relating to an entity's interest in subsidiaries, joint arrangements, associates and unconsolidated structured entities. IAS 28 was amended to conform to the changes made in IFRS 10 and IFRS 11. The adoption of IFRS 12 and IAS 28 did not result in any changes to disclosures.

Employee Benefits

Effective January 1, 2013, the Company adopted, as required, IAS 19, *Employee Benefits*, as amended in June 2011 ("IAS 19R"). The Company applied the standard retrospectively and in accordance with the transitional provisions. The opening Consolidated Balance Sheet of the earliest comparative period presented (January 1, 2012) was restated.

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IAS 19R requires the recognition of changes in defined benefit pension obligations and plan assets when they occur, eliminating the 'corridor' approach previously permitted and accelerating the recognition of past service costs. In order for the net defined benefit liability or asset to reflect the full value of the plan deficit or surplus, all actuarial gains and losses are recognized immediately through OCI. In addition, the Company replaced interest costs on the defined benefit obligation and the expected return on plan assets with a net interest cost based on the net defined benefit asset or liability measured by applying the same discount rate used to measure the defined benefit obligation at the beginning of the annual period. Interest expense and interest income on net post-employment benefit liabilities and assets continue to be recognized in net earnings.

Furthermore, termination benefits must be recognized at the earlier of when the entity can no longer withdraw an offer of termination benefits or recognizes any restructuring costs.

The effect on the Consolidated Balance Sheets of IAS 19R was:

As at January 1, 2012	Net Defined Benefit Liability ⁽¹⁾	Deferred Income Taxes	Shareholders' Equity
Balance as Previously Reported	16	2,101	9,406
Effect of Adoption of IAS 19R	30	(8)	(22)
Restated Balance	46	2,093	9,384

(1) Composed of the defined benefit pension and OPEB plans, which are included in other liabilities on the Consolidated Balance Sheets.

As at December 31, 2012	Net Defined Benefit Liability ⁽¹⁾	Deferred Income Taxes	Shareholders' Equity
Balance as Previously Reported	28	2,568	9,806
Effect of Adoption of IAS 19R	32	(8)	(24)
Restated Balance	60	2,560	9,782

(1) Composed of the defined benefit pension and OPEB plans, which are included in other liabilities on the Consolidated Balance Sheets.

The effect on the Consolidated Statements of Earnings and Comprehensive Income of IAS 19R was:

	Year Ended December 31, 2012	Year Ended December 31, 2011
Decrease in General and Administrative Expense	2	-
Increase in Net Earnings for the Year	2	-
Remeasurement of Defined Benefit and OPEB Liabilities	(4)	(12)
(Decrease) in Comprehensive Income for the Year	(2)	(12)

The change in accounting policy did not have a material impact on the Consolidated Financial Statements including net earnings per share.

Details about the Company's pension and OPEB plans are disclosed in Note 25.

Fair Value Measurement

Effective January 1, 2013, the Company adopted, as required, IFRS 13, "Fair Value Measurement" ("IFRS 13") and applied the standard prospectively as required by the transitional provisions. The standard provides a consistent definition of fair value and introduces consistent requirements for disclosures related to fair value measurement. There has been no change to Cenovus's methodology for determining the fair value for its financial assets and liabilities and, as such, the adoption of IFRS 13 did not result in any measurement adjustments as at January 1, 2013. The disclosures related to fair value measurement can be found in Note 32.

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Presentation of Items in Other Comprehensive Income

Effective January 1, 2013, the Company applied the amendment to IAS 1, "Presentation of Financial Statements" ("IAS 1"), as amended in June 2011. The amendment requires items within OCI to be grouped into two categories: (1) items that will not be subsequently reclassified to profit or loss or (2) items that may be subsequently reclassified to profit or loss when specific conditions are met. The amendment has been applied retrospectively and, as such, the presentation of items in OCI has been modified. The application of the amendment to IAS 1 did not result in any adjustments to OCI.

Disclosure of Offsetting Financial Assets and Financial Liabilities

Effective January 1, 2013, the Company complied with the amended disclosure requirements, regarding offsetting financial assets and financial liabilities, found in IFRS 7, "Financial Instruments: Disclosures" issued in December 2011. The additional disclosures can be found in Note 32. The application of the amendment had no impact on the Consolidated Statements of Earnings and Comprehensive Income or the Consolidated Balance Sheets.

Disclosures of Recoverable Amounts of Non-Financial Assets

In May 2013, the IASB issued an amendment to IAS 36, "Impairment of Assets". The amendment removes certain disclosures of the recoverable amount of a CGU. The amendment is effective retrospectively for annual periods beginning on or after January 1, 2014. As allowed by the standard, the Company early adopted the amendment in the current period. Refer to Note 20 for the amended disclosures.

5. 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 recognized 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 recognized in the Consolidated Financial Statements.

In determining the classification of its joint arrangements under IFRS 11, 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 partnership. 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.

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- 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 costs, as well as estimated economically recoverable reserves are considered. If it is determined that an E&E asset is not technically feasible and commercially viable and Management decides not to continue the exploration and evaluation activity, the unrecoverable costs are charged to exploration expense.

Identification of CGUs

The Company's upstream and refining assets are grouped into 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 interpretations. 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 and corporate assets are assessed at the CGU level. As such, the determination of a CGU could have a significant impact on impairment losses.

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 recognized 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.

Reserves

There are a number of inherent uncertainties associated with estimating 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 have a significant impact on 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 and reported to the Company by independent qualified reserves evaluators.

Impairment of Assets

PP&E, E&E assets and goodwill are assessed for impairment at least annually and when circumstances suggest that the carrying amount may exceed the recoverable amount. Assets are tested for impairment at the CGU level. These calculations require the use of estimates and assumptions and are subject to change as new information becomes available. For the Company's upstream assets, these estimates include future commodity prices, expected production volumes, quantity of reserves and discount rates, as well as future development and operating costs. Recoverable amounts for the Company's refining assets utilizes assumptions such as refinery throughput, future commodity prices, operating costs, transportation capacity and supply and demand conditions. Changes in assumptions used in determining the recoverable amount could affect the carrying value of the related assets.

For impairment testing purposes, goodwill has been allocated to each of the CGUs to which it relates.

At December 31, 2013, the recoverable amounts of Cenovus's upstream CGUs were determined based on fair value less costs of disposal. Key assumptions in the determination of cash flows from reserves include reserves as estimated by Cenovus's independent qualified reserves evaluators, crude oil and natural gas prices and the discount rate.

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Crude Oil and Natural Gas Prices

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

	2014	2015	2016	2017	2018	Average Annual % Change to 2024
WTI (US\$/barrel)	95.00	95.00	95.00	95.00	95.30	1.9%
AECO (\$/Mcf)	4.00	4.25	4.55	4.75	5.00	2.4%

Discount Rate

Evaluations of discounted future cash flows are initiated using the discount rate of 10 percent, which is common industry practice, and used by Cenovus's independent qualified reserves evaluators in preparing their reserves 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.

Decommissioning Costs

Provisions are recognized for the future decommissioning and restoration of the Company's upstream crude oil and natural gas assets and refining assets at the end of their economic lives. Assumptions have been made to estimate the future liability based on past experience and current economic factors which Management believes are reasonable. However, the actual cost of decommissioning 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 recognized 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.

6. FINANCE COSTS

For the years ended December 31,	2013	2012	2011
Interest Expense – Short-Term Borrowings and Long-Term Debt	271	230	213
Premium on Redemption of Long-Term Debt (Note 22)	33	-	-
Interest Expense – Partnership Contribution Payable (Note 13)	98	118	138
Unwinding of Discount on Decommissioning Liabilities (Note 23)	97	86	75
Other	30	21	21
	529	455	447

7. INTEREST INCOME

For the years ended December 31,	2013	2012	2011
Interest Income – Partnership Contribution Receivable (Note 13)	(82)	(102)	(120)
Other	(14)	(7)	(4)
	(96)	(109)	(124)

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8. FOREIGN EXCHANGE (GAIN) LOSS, NET

For the years ended December 31,	2013	2012	2011
Unrealized Foreign Exchange (Gain) Loss on Translation of:			
U.S. Dollar Debt Issued from Canada	357	(69)	78
U.S. Dollar Partnership Contribution Receivable Issued from Canada	(305)	(15)	(107)
Other	(12)	14	(13)
Unrealized Foreign Exchange (Gain) Loss	40	(70)	(42)
Realized Foreign Exchange (Gain) Loss	168	50	68
	208	(20)	26

9. INCOME TAXES

The provision for income taxes is:

For the years ended December 31,	2013	2012	2011
Current Tax			
Canada	143	188	150
United States ⁽¹⁾	45	121	4
Total Current Tax	188	309	154
Deferred Tax	244	474	575
	432	783	729

(1) 2012 includes \$68 million of withholding tax on a U.S. dividend.

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

For the years ended December 31,	2013	2012	2011
Earnings Before Income Tax	1,094	1,778	2,207
Canadian Statutory Rate	25.2%	25.2%	26.7%
Expected Income Tax	276	448	589
Effect of Taxes Resulting from:			
Foreign Tax Rate Differential	109	146	82
Non-Deductible Stock-Based Compensation	10	10	18
Multi-Jurisdictional Financing	(22)	(27)	(50)
Foreign Exchange Gains (Losses) not Included in Net Earnings	19	14	(9)
Non-Taxable Capital (Gains) Losses	31	(7)	(8)
Derecognition (Recognition) of Capital Losses	15	(22)	26
Adjustments Arising from Prior Year Tax Filings	(13)	33	31
Withholding Tax on Foreign Dividend	-	68	-
Goodwill Impairment	-	99	-
Other	7	21	50
Total Tax	432	783	729
Effective Tax Rate	39.5%	44.0%	33.0%

The Canadian statutory tax rate remained unchanged at 25.2 percent for 2013. The Canadian statutory tax rate decreased to 25.2 percent in 2012 and 26.7 percent in 2011 as a result of tax legislation enacted in 2007. The U.S. statutory tax rate of 38.5 percent also remained unchanged for 2013. The U.S. statutory tax rate 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.

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

As at	December 31, 2013	December 31, 2012	January 1, 2012
Net Deferred Income Tax Liabilities			
Deferred Tax Liabilities to be Settled Within 12 Months	75	140	117
Deferred Tax Liabilities to be Settled After More Than 12 Months	2,787	2,420	1,976
	2,862	2,560	2,093

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For the purposes of the preceding table, deferred income tax liabilities are shown net of offsetting deferred income tax assets where these occur in the same entity and jurisdiction. The deferred income tax liabilities to be settled within 12 months represents Management's estimate of the timing of the reversal of temporary differences and does not correlate to the current income tax expense of the subsequent year.

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	Net Foreign Exchange Gains	Risk Management	Other	Total
As at January 1, 2011	1,651	125	127	55	55	2,013
Charged/(Credited) to Earnings	725	38	(15)	16	75	839
Charged/(Credited) to OCI	-	-	-	-	-	-
Foreign Exchange Adjustments	18	-	-	-	2	20
As at January 1, 2012	2,394	163	112	71	132	2,872
Charged/(Credited) to Earnings	418	(104)	(85)	2	(32)	199
Charged/(Credited) to OCI	-	-	-	-	-	-
Foreign Exchange Adjustments	(17)	-	-	-	(1)	(18)
As at December 31, 2012	2,795	59	27	73	99	3,053
Charged/(Credited) to Earnings	145	29	(27)	(71)	49	125
Charged/(Credited) to OCI	-	-	-	-	-	-
Foreign Exchange Adjustments	60	-	-	-	4	64
As at December 31, 2013	3,000	88	-	2	152	3,242

Deferred Income Tax Assets	Unused Tax Losses	Risk Management	Other	Total
As at January 1, 2011	(281)	(45)	(173)	(499)
Charged/(Credited) to Earnings	(270)	29	(21)	(262)
Charged/(Credited) to OCI	-	-	(5)	(5)
Foreign Exchange Adjustments	(13)	-	-	(13)
As at January 1, 2012	(564)	(16)	(199)	(779)
Charged/(Credited) to Earnings	244	11	20	275
Charged/(Credited) to OCI	-	-	-	-
Foreign Exchange Adjustments	11	-	-	11
As at December 31, 2012	(309)	(5)	(179)	(493)
Charged/(Credited) to Earnings	218	(30)	(69)	119
Charged/(Credited) to OCI	-	-	7	7
Foreign Exchange Adjustments	(13)	-	-	(13)
As at December 31, 2013	(104)	(35)	(241)	(380)

Net Deferred Income Tax Liabilities	Total
Net Deferred Income Tax Liabilities as at January 1, 2011	1,514
Charged/(Credited) to Earnings	577
Charged/(Credited) to OCI	(5)
Foreign Exchange Adjustments	7
Net Deferred Income Tax Liabilities as at January 1, 2012	2,093
Charged/(Credited) to Earnings	474
Charged/(Credited) to OCI	-
Foreign Exchange Adjustments	(7)
Net Deferred Income Tax Liabilities as at December 31, 2012	2,560
Charged/(Credited) to Earnings	244
Charged/(Credited) to OCI	7
Foreign Exchange Adjustments	51
Net Deferred Income Tax Liabilities as at December 31, 2013	2,862

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The allocation of deferred income tax expense is composed of:

As at December 31,	2013	2012	2011
Credited/(Charged) to Net Deferred Income Tax Liabilities	244	474	577
Credited/(Charged) to Liabilities Related to Assets Held for Sale	-	-	(2)
Deferred Income Tax Expense	244	474	575

No tax liability has been recognized in respect of temporary differences associated with investments in subsidiaries. As no taxes are expected to be paid in respect of these differences related to Canadian subsidiaries, the amounts have not been determined. There are no taxable temporary differences associated with investments in non-Canadian subsidiaries.

The approximate amounts of tax pools available are:

As at December 31,	2013	2012
Canada	5,425	4,895
United States	1,083	1,607
	6,508	6,502

At December 31, 2013, the above tax pools included \$5 million (2012 - \$13 million; 2011 - \$78 million) of Canadian non-capital losses and \$238 million (2012 - \$791 million; 2011 - \$1,479 million) of U.S. federal net operating losses. These losses expire no earlier than 2029.

Also included in the December 31, 2013 tax pools are Canadian net capital losses totaling \$561 million (2012 - \$512 million; 2011 - \$759 million), which are available for carry forward to reduce future capital gains. Of these losses, \$561 million are unrecognized as a deferred income tax asset at December 31, 2013 (2012 - \$406 million; 2011 - \$286 million). Recognition is dependent on the level of future capital gains.

10. PER SHARE AMOUNTS

A) Net Earnings Per Share

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

	2013	2012	2011
Net Earnings - Basic and Diluted	662	995	1,478
Weighted Average Number of Shares - Basic	755.9	755.6	754.0
Dilutive Effect of Cenovus TSARs	1.6	2.9	3.7
Dilutive Effect of NSRs	-	-	-
Weighted Average Number of Shares - Diluted	757.5	758.5	757.7
Net Earnings Per Share - Basic	\$0.88	\$1.32	\$1.96
Net Earnings Per Share - Diluted	\$0.87	\$1.31	\$1.95

B) Dividends Per Share

The dividends paid in 2013 were \$732 million or \$0.968 per share, (2012 - \$665 million, \$0.88 per share; 2011 - \$603 million, \$0.80 per share). The Cenovus Board of Directors declared a first quarter 2014 dividend of \$0.2662 per share, payable on March 31, 2014, to common shareholders of record as of March 14, 2014.

11. CASH AND CASH EQUIVALENTS

As at	December 31, 2013	December 31, 2012	January 1, 2012
Cash	363	339	232
Short-Term Investments	2,089	821	263
	2,452	1,160	495

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12. ACCOUNTS RECEIVABLE AND ACCRUED REVENUES

As at	December 31, 2013	December 31, 2012	January 1, 2012
Accruals	1,589	1,184	1,016
Partner Advances	153	87	191
Prepays and Deposits	55	45	34
Joint Operations Receivables	26	30	30
Interest	-	23	28
Other	51	95	106
	1,874	1,464	1,405

13. PARTNERSHIP CONTRIBUTION RECEIVABLE AND PAYABLE

Cenovus has two significant joint operations, FCCL and WRB (Note 1). Through its interests in these joint operations, Cenovus's Consolidated Balance Sheets include a Partnership Contribution Receivable and Payable, which arose when Cenovus became a 50 percent partner of an integrated North American oil business. The integrated business consists of an upstream entity, FCCL, and a refining entity, WRB. On formation of the upstream entity Cenovus contributed assets, primarily Foster Creek and Christina Lake properties, with a fair value of US\$7.5 billion and a note receivable of an equal amount was contributed by the partner ("Partnership Contribution Receivable"). For the refining entity, the partner contributed its Wood River and Borger refineries, located in Illinois and Texas, respectively, for a fair value of US\$7.5 billion and Cenovus contributed a note payable of an equal amount ("Partnership Contribution Payable").

Partnership Contribution Receivable

On December 17, 2013, Cenovus, through its interest in FCCL, received US\$1.4 billion, representing the remaining principal and interest due under the Partnership Contribution Receivable.

Partnership Contribution Payable

This note payable is denominated in US dollars and bears interest at a rate of 6.0 percent per annum. Equal payments of principal and interest are payable quarterly, with final payment due January 2, 2017. The current and long-term Partnership Contribution Payable amounts recognized in the Consolidated Balance Sheets represent Cenovus's 50 percent share of this promissory note, net of payments to date.

Mandatory Payments – Partnership Contribution Payable

	2014	2015	2016	2017	Thereafter	Total
US\$	412	438	464	120	-	1,434
C\$ equivalent	438	465	494	128	-	1,525

14. INVENTORIES

As at	December 31, 2013	December 31, 2012	January 1, 2012
Product			
Refining and Marketing	1,047	1,056	1,079
Oil Sands	156	192	162
Conventional	17	11	25
Parts and Supplies	39	29	25
	1,259	1,288	1,291

During the year ended December 31, 2013, approximately \$13,895 million of produced and purchased inventory was recognized as an expense (2012 – \$12,363 million; 2011 – \$11,568 million). Inventory costs include purchased product, the cost of condensate blended with heavy oil and related operating costs.

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In the third quarter, Cenovus recorded a \$28 million write-down of its product inventory as a result of a decline in refined product prices. Product turnover and the subsequent improvement in commodity prices have resulted in the \$28 million being reversed in the fourth quarter.

15. ASSETS AND LIABILITIES HELD FOR SALE

As at	December 31, 2013	December 31, 2012	January 1, 2012
Assets Held for Sale			
Property, Plant and Equipment	-	-	116
Liabilities Related to Assets Held for Sale			
Decommissioning Liabilities	-	-	54
Deferred Income Taxes	-	-	-
	-	-	54

In the first quarter of 2013, Management decided to launch a public sales process to divest certain of its Bakken properties in Saskatchewan. 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. At that time, the assets were recorded at the lesser of fair value less costs of disposal and their carrying amount, and depletion ceased. These assets and the related liabilities are reported in the Conventional segment.

Management decided to discontinue the Bakken sales process until market conditions improve. While discussions with prospective purchasers have occurred, an offer that meets Management's expectations has not been received for the Bakken assets. As a result of this decision, as at December 31, 2013, the assets and associated decommissioning liabilities were reclassified from held for sale to PP&E and decommissioning liabilities, at their carrying amounts. Depletion, calculated on a per-unit of production basis, was recorded in the fourth quarter. The carrying value continues to be less than the estimated recoverable amount; therefore, no impairment was recognized.

16. EXPLORATION AND EVALUATION ASSETS

COST

As at January 1, 2012	880
Additions ⁽¹⁾	687
Transfers to PP&E (Note 17)	(218)
Exploration Expense	(68)
Divestitures	(11)
Change in Decommissioning Liabilities	15
As at December 31, 2012	1,285
Additions	331
Transfers to PP&E (Note 17)	(95)
Exploration Expense	(50)
Divestitures	(17)
Change in Decommissioning Liabilities	19
As at December 31, 2013	1,473

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

E&E assets consist of the Company's evaluation projects which are pending 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, 2013 include \$60 million of internal costs directly related to the evaluation of these projects (year ended December 31, 2012 - \$37 million; 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 during the year ended December 31, 2013 (year ended December 31, 2012 and 2011 - \$nil).

For the year ended December 31, 2013, \$95 million of E&E assets were transferred to PP&E - development and production assets, following the determination of technical feasibility and commercial viability of the projects (year ended December 31, 2012 - \$218 million; December 31, 2011 - \$356 million).

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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. For the year ended December 31, 2013, \$50 million of previously capitalized E&E costs related to certain tight oil exploration assets within the Conventional segment were deemed not to be technically feasible and commercially viable and were recognized as exploration expense (2012 – \$68 million; 2011 – \$nil).

17. PROPERTY, PLANT AND EQUIPMENT, NET

	Upstream Assets		Refining Equipment	Other ⁽¹⁾	Total
	Development & Production	Other Upstream			
COST					
As at January 1, 2012	23,858	194	3,425	576	28,053
Additions	2,442	44	118	191	2,795
Transfers from E&E Assets (Note 16)	218	-	-	-	218
Transfers and Reclassifications	-	-	(55)	-	(55)
Change in Decommissioning Liabilities	484	-	(16)	-	468
Exchange Rate Movements	1	-	(73)	-	(72)
As at December 31, 2012	27,003	238	3,399	767	31,407
Additions	2,702	48	106	82	2,938
Transfers from E&E Assets (Note 16)	95	-	-	-	95
Transfers and Reclassifications	(450)	-	(88)	-	(538)
Change in Decommissioning Liabilities	40	-	(1)	-	39
Exchange Rate Movements	-	-	238	-	238
As at December 31, 2013	29,390	286	3,654	849	34,179
ACCUMULATED DEPRECIATION, DEPLETION AND AMORTIZATION					
As at January 1, 2012	13,021	139	225	344	13,729
Depreciation, Depletion and Amortization	1,368	19	146	52	1,585
Transfers and Reclassifications	-	-	(55)	-	(55)
Impairment Losses	-	-	-	-	-
Exchange Rate Movements	1	-	(5)	-	(4)
As at December 31, 2012	14,390	158	311	396	15,255
Depreciation, Depletion and Amortization	1,522	35	138	79	1,774
Transfers and Reclassifications	(123)	-	(88)	-	(211)
Impairment Losses	2	-	-	-	2
Exchange Rate Movements	-	-	25	-	25
As at December 31, 2013	15,791	193	386	475	16,845
CARRYING VALUE					
As at January 1, 2012	10,837	55	3,200	232	14,324
As at December 31, 2012	12,613	80	3,088	371	16,152
As at December 31, 2013	13,599	93	3,268	374	17,334

(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 crude oil and natural gas properties of \$204 million (2012 – \$161 million; 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 in 2013 (2012 and 2011 – \$nil).

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

As at	December 31, 2013	December 31, 2012	January 1, 2012
Development and Production	225	71	-
Refining Equipment	97	13	125
Other	-	-	112
	322	84	237

Impairment

The impairment of PP&E and any subsequent reversal of such impairment losses are recognized in DD&A in the Consolidated Statements of Earnings and Comprehensive Income.

DD&A expense includes impairment losses as follows:

For the years ended December 31,	2013	2012	2011
Development and Production	2	-	2
Refining Equipment	-	-	45
	2	-	47

There were no impairment reversals of PP&E in 2013. The impairment losses for the year ended December 31, 2011 were 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.

18. DIVESTITURES

In July 2013, the Company completed the sale of the Lower Shaunavon asset to an unrelated third party for proceeds of approximately \$240 million plus closing adjustments. In the second quarter of 2013, an impairment loss of \$57 million was recorded as additional DD&A on the transaction. A loss of \$2 million was recorded on the sale in the third quarter. Other divestitures in 2013 include undeveloped land in northern Alberta, cancellation of some of the Company's non-core Oil Sands mineral rights under the Lower Athabasca Regional Plan and a third party land exchange.

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.

In 2011, the Company disposed of non-core crude oil and natural gas properties and marine terminal facilities recognizing an after-tax gain of \$91 million in the Consolidated Statement of Earnings and Comprehensive Income.

19. OTHER ASSETS

As at	December 31, 2013	December 31, 2012	January 1, 2012
Equity Investments	32	14	6
Long-Term Receivables	11	22	18
Prepays	7	8	8
Other	18	14	12
	68	58	44

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20. GOODWILL

As at December 31,	2013	2012
Carrying Value, Beginning of Year	739	1,132
Impairment	-	(393)
Carrying Value, End of Year	739	739

There were no additions to goodwill during 2013 or 2012.

Impairment Test for CGUs 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 in 2002 upon the formation of the predecessor corporation. The carrying amount of goodwill allocated to the Company's exploration and production CGUs was:

As at	December 31, 2013	December 31, 2012	January 1, 2012
Primrose (Foster Creek)	242	242	242
Northern Alberta	497	497	497
Suffield	-	-	393
	739	739	1,132

At December 31, 2012, the Company determined that the carrying amount of the Suffield CGU exceeded its fair value less costs of disposal and the full amount of the impairment was attributed to goodwill. 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 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 reserves replacement in the area. With lower future cash flows and decreasing volumes, the carrying amount of the Suffield CGU exceeded its fair value.

The recoverable amount was determined using fair value less costs of disposal. 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. As at December 31, 2012, the recoverable amount of the Suffield CGU was \$1,130 million.

There were no impairments of goodwill in 2013 and 2011.

21. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As at	December 31, 2013	December 31, 2012	January 1, 2012
Accruals	2,317	2,053	1,855
Partner Advances	233	87	191
Trade	102	133	148
Employee Long-Term Incentives	116	196	209
Interest	82	82	72
Other	87	99	104
	2,937	2,650	2,579

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22. LONG-TERM DEBT

As at		December 31, 2013	December 31, 2012	January 1, 2012
Revolving Term Debt ⁽¹⁾	A	-	-	-
U.S. Dollar Denominated Unsecured Notes	B	5,052	4,726	3,559
Total Debt Principal	C	5,052	4,726	3,559
Debt Discounts and Transaction Costs	D	(55)	(47)	(32)
		4,997	4,679	3,527

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

The weighted average interest rate on outstanding debt for the year ended December 31, 2013 was 5.2 percent (2012 – 5.3 percent; 2011 – 5.5 percent).

A) Revolving Term Debt

At December 31, 2013, Cenovus had in place a committed credit facility in the amount of \$3.0 billion or the equivalent amount in U.S. dollars. The committed credit facility was renegotiated in September 2013 to extend the maturity date to November 30, 2017. The maturity date is extendable from time to time, for a period of up to four years 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. At December 31, 2013, there were no amounts drawn on Cenovus's committed bank credit facility (December 31, 2012 – \$nil; January 1, 2012 – \$nil).

B) Unsecured Notes

Unsecured notes are composed of:

As at	US\$ Principal Amount	December 31, 2013	December 31, 2012	January 1, 2012
4.50% due September 15, 2014	800	-	796	814
5.70% due October 15, 2019	1,300	1,382	1,293	1,322
3.00% due August 15, 2022	500	532	498	-
3.80% due September 15, 2023	450	479	-	-
6.75% due November 15, 2039	1,400	1,489	1,393	1,423
4.45% due September 15, 2042	750	798	746	-
5.20% due September 15, 2043	350	372	-	-
		5,052	4,726	3,559

Cenovus has in place 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. The 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, 2013, no medium-term notes have been issued under this Canadian shelf prospectus. The Canadian shelf prospectus expires in June 2014.

On May 9, 2013, Cenovus amended its U.S. base shelf prospectus for unsecured notes to increase the total capacity from US\$2.0 billion to US\$3.25 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. The 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, 2013, US\$1.2 billion remains under this U.S. base shelf prospectus. The U.S. shelf prospectus expires in July 2014.

On August 15, 2013, Cenovus completed a public offering in the U.S. of senior unsecured notes of US\$450 million, with a coupon rate of 3.80 percent, due September 15, 2023 and US\$350 million of senior unsecured notes with a coupon rate of 5.20 percent, due September 15, 2043, for an aggregate principal amount of US\$800 million. The net proceeds from the offering were used to partially fund the early redemption of Cenovus's US\$800 million senior unsecured notes due September 15, 2014. A premium of US\$32 million was paid on the early redemption of these notes and was recorded as finance costs.

As at December 31, 2013, the Company is in compliance with all of the terms of its debt agreements.

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C) Mandatory Debt Payments

	US\$ Principal Amount	C\$ Principal Amount	Total C\$ Equivalent
2014	-	-	-
2015	-	-	-
2016	-	-	-
2017	-	-	-
2018	-	-	-
Thereafter	4,750	-	5,052
	<u>4,750</u>	<u>-</u>	<u>5,052</u>

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 2013, additional transaction costs of \$15 million were recorded (2012 – \$19 million).

23. 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 at December 31,	2013	2012
Decommissioning Liabilities, Beginning of Year	2,315	1,777
Liabilities Incurred	45	99
Liabilities Settled	(76)	(66)
Transfers and Reclassifications	(26)	3
Change in Estimated Future Cash Flows	414	144
Change in Discount Rate	(401)	273
Unwinding of Discount on Decommissioning Liabilities	97	86
Foreign Currency Translation	2	(1)
Decommissioning Liabilities, End of Year	2,370	2,315

The undiscounted amount of estimated future cash flows required to settle the obligation is \$7,471 million (December 31, 2012 – \$6,865 million; January 1, 2012 – \$6,541 million), which has been discounted using a credit-adjusted risk-free rate of 5.2 percent (December 31, 2012 – 4.2 percent; January 1, 2012 – 4.8 percent). 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. Revisions in estimated future cash flows resulted from accelerated timing of forecast abandonment and reclamation spending, and higher cost estimates.

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,	2013		2012	
	Credit-Adjusted Risk-Free Rate	Inflation Rate	Credit-Adjusted Risk-Free Rate	Inflation Rate
One Percent Increase	(345)	472	(408)	572
One Percent Decrease	461	(357)	565	(418)

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24. OTHER LIABILITIES

As at	December 31, 2013	December 31, 2012	January 1, 2012
Deferred Revenues	25	31	35
Employee Long-Term Incentives	67	64	55
Pension and OPEB (Note 25)	51	60	46
Other	37	28	22
	180	183	158

25. 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 June 30, 2012 and the next required actuarial valuation will be as at December 31, 2014.

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	
	2013	2012	2013	2012
Defined Benefit Obligation				
Defined Benefit Obligation, Beginning of Year	134	84	20	19
Current Service Costs	17	10	2	2
Interest Costs ⁽¹⁾	6	4	1	1
Benefits Paid	(5)	(2)	-	-
Plan Participant Contributions	2	1	-	-
Plan Conversion	-	30	-	-
Remeasurements:				
(Gains) Losses from Experience Adjustments	1	3	-	1
(Gains) Losses from Changes in Demographic Assumptions	12	-	(1)	(1)
(Gains) Losses from Changes in Financial Assumptions	(19)	4	(4)	(2)
Defined Benefit Obligation, End of Year	148	134	18	20
Plan Assets				
Fair Value of Plan Assets, Beginning of Year	94	57	-	-
Employer Contributions	15	22	-	-
Plan Participant Contributions	2	1	-	-
Benefits Paid	(5)	(2)	-	-
Interest Income ⁽¹⁾	2	3	-	-
Asset Transfer From Plan Conversion	-	12	-	-
Remeasurements:				
Return on Plan Assets (Excluding Interest Income)	7	1	-	-
Fair Value of Plan Assets, End of Year	115	94	-	-
Pension and Other Post-Employment Benefit (Liability) ⁽²⁾	(33)	(40)	(18)	(20)

(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.

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The weighted average duration of the defined benefit pension and OPEB obligations are 16 years and 12 years, respectively.

B) Pension and OPEB Costs

Pension and OPEB costs are:

For the years ended December 31,	Pension Benefits			OPEB		
	2013	2012	2011	2013	2012	2011
Defined Benefit Plan Cost:						
Current Service Costs	17	10	3	2	2	2
Past Service Costs ⁽¹⁾	-	18	-	-	-	-
Net Interest Costs	4	1	1	1	1	1
Remeasurements:						
Return on Plan Assets (Excluding Interest Income)	(7)	(1)	4	-	-	-
(Gains) Losses from Experience Adjustments	1	3	(1)	-	1	-
(Gains) Losses from Changes in Demographic Assumptions	12	-	-	(1)	(1)	-
(Gains) Losses from Changes in Financial Assumptions	(19)	4	12	(4)	(2)	2
Defined Benefit Plan Cost (Gain)	8	35	19	(2)	1	5
Defined Contribution Plan Cost	27	25	22	-	-	-
Total Plan Cost	35	60	41	(2)	1	5

(1) Past service costs for eligible employees meeting certain criteria who elected to convert from the defined contribution pension to defined benefit pension.

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

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 monthly and is re-balanced as necessary. The asset allocation structure targets an investment of 65 to 70 percent in equity securities, 30 percent in debt instruments and the remainder invested in real estate and other.

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, 2013	December 31, 2012	January 1, 2012
Equity Securities			
Equity Funds and Balanced Funds	67	52	30
Other	8	3	-
Bond Funds	25	24	17
Non-Invested Assets	12	11	7
Real Estate	3	4	3
	115	94	57

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 real estate is determined by accredited real estate appraisers.

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

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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 the most recent actuarial valuation as at June 30, 2012, and direction by 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, 2014 are \$15 million for the defined benefit pension plan and \$nil for the OPEB. The OPEB is funded on an as required basis.

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		
	2013	2012	2011	2013	2012	2011
Discount Rate	4.75%	4.00%	4.25%	4.75%	4.00%	4.25%
Future Salary Growth Rate	4.39%	4.39%	3.99%	5.65%	5.77%	5.77%
Average Longevity (Years)	88.5	86.1	86.1	88.5	86.1	86.1
Health Care Cost Trend Rate	N/A	N/A	N/A	7.00%	8.00%	10.00%

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 at December 31, 2013 is shown below.

	One Percentage Point Increase	One Percentage Point Decrease
Discount Rate	(23)	29
Future Salary Growth Rate	4	(4)
Health Care Cost Trend Rate	1	(1)
Future Mortality Rate (Years)	3	(3)

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 recognized 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.

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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.

26. 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

	2013		2012	
	Number of Common Shares (thousands)	Amount	Number of Common Shares (thousands)	Amount
<i>As at December 31,</i>				
Outstanding, Beginning of Year	755,843	3,829	754,499	3,780
Common Shares Issued under Stock Option Plans	970	31	1,344	49
Common Shares Cancelled	(767)	(3)	-	-
Outstanding, End of Year	756,046	3,857	755,843	3,829

During the year ended December 31, 2013, the Company cancelled 767,327 common shares. The common shares were held in reserve for un-exchanged shares of Alberta Energy Company Ltd., pursuant to the merger of Alberta Energy Company Ltd. and PanCanadian Energy Corporation in 2002 ("AEC Merger"), in which Encana was formed. Due to the Arrangement, common shares of the Company were held in reserve until the tenth anniversary of the AEC Merger.

There were no preferred shares outstanding as at December 31, 2013 (2012 - nil).

As at December 31, 2013, there were 24 million (2012 - 28 million) common shares available for future issuance under stock option plans.

The Company has a dividend reinvestment plan ("DRIP"). Under the DRIP, holders of common shares may reinvest all or a portion of the cash dividends payable on their common shares in additional common shares. At the discretion of the Company, the additional common shares may be issued from treasury or purchased on the market.

C) Paid in Surplus

Cenovus's paid in surplus reflects the Company's retained earnings prior to the split of Encana under the Arrangement into two independent energy companies, Encana and Cenovus. In addition, paid in surplus includes compensation expense related to the Company's NSRs discussed in Note 28A.

	Pre-Arrangement Earnings	Stock-Based Compensation	Total
As at January 1, 2012	4,083	24	4,107
Stock-Based Compensation Expense	-	47	47
As at December 31, 2012	4,083	71	4,154
Stock-Based Compensation Expense	-	62	62
Common Shares Cancelled	3	-	3
As at December 31, 2013	4,086	133	4,219

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27. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

	Defined Benefit Plan	Foreign Currency Translation	Available for Sale Investments	Total
As at January 1, 2012	(22)	119	-	97
Other Comprehensive Income (Loss), Before Tax	(4)	(24)	-	(28)
Income Tax	-	-	-	-
As at December 31, 2012	(26)	95	-	69
Other Comprehensive Income (Loss), Before Tax	18	117	13	148
Income Tax	(4)	-	(3)	(7)
As at December 31, 2013	(12)	212	10	210

28. 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 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"). All performance TSARs have vested, and, as such, terms and conditions are consistent with TSARs, which were not performance based.

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, 2013	Issued	Term (Years)	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price (\$)	Closing Share Price (\$)	Number of Units Outstanding (thousands)
NSRs	On or After February 24, 2011	7	5.46	35.26	30.40	26,315
TSARs	Prior to February 17, 2010	5	0.15	26.28	30.40	2,483
TSARs	On or After February 17, 2010	7	3.20	26.71	30.40	4,603
Encana Replacement TSARs held by Cenovus Employees	Prior to December 1, 2009	5	0.12	29.06	19.18	3,904
Cenovus Replacement TSARs held by Encana Employees	Prior to December 1, 2009	5	0.12	26.28	30.40	1,479

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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 year ended December 31, 2013 was \$6.10 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	1.49%
Expected Dividend Yield	2.65%
Expected Volatility ⁽¹⁾	27.62%
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 information related to the NSRs as at December 31, 2013:

As at December 31, 2013	Number of NSRs (thousands)	Weighted Average Exercise Price (\$)
Outstanding, Beginning of Year	15,074	37.52
Granted	12,078	32.50
Exercised for Common Shares	-	31.85
Forfeited	(837)	36.26
Outstanding, End of Year	26,315	35.26
Exercisable, End of Year	5,966	37.37

For options exercised during the year, the weighted average market price of Cenovus's common shares at the date of exercise was \$33.11.

Outstanding NSRs			
As at December 31, 2013	Number of NSRs (thousands)	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price (\$)
Range of Exercise Price (\$)			
25.00 to 29.99	271	6.49	29.64
30.00 to 34.99	13,407	6.07	32.61
35.00 to 39.99	12,637	4.78	38.18
	26,315	5.46	35.26

Exercisable NSRs			
As at December 31, 2013	Number of NSRs (thousands)	Weighted Average Exercise Price (\$)	
Range of Exercise Price (\$)			
30.00 to 34.99	726	32.92	
35.00 to 39.99	5,240	37.99	
	5,966	37.37	

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TSARs Held by Cenovus Employees

The Company has recorded a liability of \$33 million at December 31, 2013 (December 31, 2012 – \$64 million; January 1, 2012 – \$90 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	1.91%
Expected Dividend Yield	3.05%
Expected Volatility ⁽¹⁾	26.43%
Cenovus's Common Share Price	\$30.40

(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 at December 31, 2013 was \$27 million (2012 – \$45 million).

The following tables summarize information related to the TSARs held by Cenovus employees as at December 31, 2013:

As at December 31, 2013	Number of TSARs (thousands)	Weighted Average Exercise Price (\$)
Outstanding, Beginning of Year	11,251	28.13
Exercised for Cash Payment	(1,840)	29.70
Exercised as Options for Common Shares	(955)	29.07
Forfeited	(67)	28.62
Expired	(1,303)	33.77
Outstanding, End of Year	7,086	26.56
Exercisable, End of Year	7,037	26.51

For options exercised during the year, the weighted average market price of Cenovus's common shares at the date of exercise was \$32.60.

As at December 31, 2013 Range of Exercise Price (\$)	Outstanding TSARs		
	Number of TSARs (thousands)	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price (\$)
20.00 to 29.99	6,910	2.08	26.40
30.00 to 39.99	176	3.90	32.71
	7,086	2.13	26.56

As at December 31, 2013 Range of Exercise Price (\$)	Exercisable TSARs	
	Number of TSARs (thousands)	Weighted Average Exercise Price (\$)
20.00 to 29.99	6,910	26.40
30.00 to 39.99	127	32.42
	7,037	26.51

The closing price of Cenovus's common shares on the TSX as at December 31, 2013 was \$30.40.

Encana Replacement TSARs Held by Cenovus Employees

Cenovus is required to reimburse Encana for 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.

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The Company has recorded a liability of \$nil at December 31, 2013 (December 31, 2012 – \$1 million; January 1, 2012 – \$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 at the period end date using the Black-Scholes-Merton valuation model with weighted average assumptions as follows:

Risk-Free Interest Rate	1.91%
Expected Dividend Yield	3.63%
Expected Volatility ⁽¹⁾	30.27%
Encana's Common Share Price	\$19.18

(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 at December 31, 2013 was \$nil (2012 – \$nil).

The following tables summarize information related to the Encana replacement TSARs held by Cenovus employees as at December 31, 2013:

As at December 31, 2013	Number of TSARs (thousands)	Weighted Average Exercise Price (\$)
Outstanding, Beginning of Year	7,722	32.66
Forfeited	(187)	30.07
Expired	(3,631)	36.66
Outstanding, End of Year	3,904	29.06
Exercisable, End of Year	3,904	29.06

As at December 31, 2013 Range of Exercise Price (\$)	Outstanding & Exercisable TSARs		
	Number of TSARs (thousands)	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price (\$)
20.00 to 29.99	3,874	0.12	29.04
30.00 to 39.99	30	0.73	31.53
	3,904	0.12	29.06

The closing price of Encana common shares on the TSX as at December 31, 2013 was \$19.18.

Cenovus Replacement TSARs Held by Encana Employees

Encana is required to reimburse Cenovus for cash payments made by Cenovus to Encana 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 \$6 million at December 31, 2013 (December 31, 2012 – \$35 million; January 1, 2012 – \$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 at the period end date using the Black-Scholes-Merton valuation model with weighted average assumptions as follows:

Risk-Free Interest Rate	1.91%
Expected Dividend Yield	3.05%
Expected Volatility ⁽¹⁾	26.43%
Cenovus's Common Share Price	\$30.40

(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 at December 31, 2013 was \$6 million (2012 – \$22 million).

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The following tables summarize the information related to the Cenovus replacement TSARs held by Encana employees as at December 31, 2013:

As at December 31, 2013	Number of TSARs (thousands)	Weighted Average Exercise Price (\$)
Outstanding, Beginning of Year	5,229	29.29
Exercised for Cash Payment	(2,351)	28.75
Exercised as Options for Common Shares	(15)	29.54
Forfeited	(27)	28.74
Expired	(1,357)	33.51
Outstanding, End of Year	1,479	26.28
Exercisable, End of Year	1,479	26.28

For options exercised during the year, the weighted average market price of Cenovus's common shares at the date of exercise was \$32.42.

As at December 31, 2013 Range of Exercise Price (\$)	Outstanding & Exercisable TSARs		
	Number of TSARs (thousands)	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price (\$)
20.00 to 29.99	1,479	0.12	26.28

The closing price of Cenovus's common shares on the TSX as at December 31, 2013 was \$30.40.

B) PSUs

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 \$103 million at December 31, 2013 (December 31, 2012 – \$124 million; January 1, 2012 – \$55 million) in the Consolidated Balance Sheets for PSUs based on the market value of the Cenovus common shares at December 31, 2013. The intrinsic value of vested PSUs was \$nil at December 31, 2013 and 2012 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, 2013	PSUs (thousands)
Outstanding, Beginning of Year	5,258
Granted	2,552
Vested and Paid Out	(2,008)
Cancelled	(194)
Units in Lieu of Dividends	177
Outstanding, End of Year	5,785

C) DSUs

Under two Deferred Share Unit Plans, Cenovus directors, officers and employees may receive 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 at December 31, 2013 (December 31, 2012 – \$36 million; January 1, 2012 – \$35 million) in the Consolidated Balance Sheets for DSUs based on the market value of the Cenovus common shares at December 31, 2013. The intrinsic value of vested DSUs equals the carrying value as DSUs vest at the time of grant.

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

As at December 31, 2013	DSUs (thousands)
Outstanding, Beginning of Year	1,084
Granted to Directors	65
Granted from Annual Bonus Awards	8
Units in Lieu of Dividends	36
Redeemed	(1)
Outstanding, End of Year	1,192

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 in the Consolidated Statements of Earnings and Comprehensive Income:

For the years ended December 31,	2013	2012	2011
NSRs	35	27	16
TSARs Held by Cenovus Employees	(16)	(1)	24
Encana Replacement TSARs Held by Cenovus Employees	-	-	(8)
PSUs	32	46	27
DSUs	-	3	4
Total Stock-Based Compensation Expense (Recovery)	51	75	63

29. EMPLOYEE SALARIES AND BENEFIT EXPENSES

For the years ended December 31,	2013	2012	2011
Salaries, Bonuses and Other Short-Term Employee Benefits	494	441	399
Defined Contribution Pension Plan	17	14	13
Defined Benefit Pension Plan and OPEB	15	20	4
Stock-Based Compensation (Note 28)	51	75	63
	577	550	479

30. 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,	2013	2012	2011
Salaries, Director Fees and Short-Term Benefits	31	27	25
Post-Employment Benefits	4	7	3
Other Long-Term Benefits	-	-	-
Stock-Based Compensation	24	35	35
	59	69	63

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

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31. 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 and DD&A ("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, 2013	December 31, 2012	January 1, 2012
Long-Term Debt	4,997	4,679	3,527
Shareholders' Equity	9,946	9,782	9,384
Capitalization	14,943	14,461	12,911
Debt to Capitalization	33%	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,	2013	2012	2011
Debt	4,997	4,679	3,527
Net Earnings	662	995	1,478
Add (Deduct):			
Finance Costs	529	455	447
Interest Income	(96)	(109)	(124)
Income Tax Expense	432	783	729
Depreciation, Depletion and Amortization	1,833	1,585	1,295
Goodwill Impairment	-	393	-
E&E Impairment	50	68	-
Unrealized (Gain) Loss on Risk Management	415	(57)	(180)
Foreign Exchange (Gain) Loss, Net	208	(20)	26
(Gain) Loss on Divestiture of Assets	1	-	(107)
Other (Income) Loss, Net	2	(5)	4
Adjusted EBITDA	4,036	4,088	3,568
Debt to Adjusted EBITDA	1.2x	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 its 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.

At December 31, 2013, Cenovus is in compliance with all of the terms of its debt agreements.

32. FINANCIAL INSTRUMENTS

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.

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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 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.

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, 2013, the carrying value of Cenovus's long-term debt was \$4,997 million and the fair value was \$5,388 million (December 31, 2012 carrying value – \$4,679 million, fair value – \$5,582 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. When fair value cannot be reliably measured, these assets are carried at cost. A reconciliation of changes in the fair value of available for sale financial assets is below.

As at December 31,	2013	2012
Fair Value, Beginning of Year	14	6
Acquisition of Investments	5	8
Change in Fair Value ⁽¹⁾	13	-
Fair Value, End of Year	32	14

(1) Unrealized gains and losses on available for sale financial assets are recorded in Other Comprehensive Income.

B) Fair Value of Risk Management Assets and Liabilities

The Company's risk management assets and liabilities consist of crude oil, natural gas and power purchase contracts. Crude oil and 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 forward prices used in the determination of the fair value of the power purchase contracts at December 31, 2013 range from \$44.75 to \$66.00 per Megawatt Hour.

Summary of Unrealized Risk Management Positions

As at	December 31, 2013			December 31, 2012			January 1, 2012		
	Asset	Liability	Net	Asset	Liability	Net	Asset	Liability	Net
Commodity Prices									
Crude Oil	10	136	(126)	221	16	205	22	65	(43)
Natural Gas	-	-	-	66	1	65	247	3	244
Power	-	3	(3)	1	1	-	15	-	15
Total Fair Value	10	139	(129)	288	18	270	284	68	216

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

As at	December 31, 2013	December 31, 2012	January 1, 2012
Prices Sourced from Observable Data or Market Corroboration (Level 2)	(126)	270	216
Prices Determined from Unobservable Inputs (Level 3)	(3)	-	-
	(129)	270	216

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.

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

	2013	2012
Fair Value of Contracts, Beginning of Year	270	216
Fair Value of Contracts Realized During the Year	(122)	(336)
Change in Fair Value of Contracts in Place at Beginning of Year and Contracts Entered into During the Year	(293)	393
Unrealized Foreign Exchange Gain (Loss) on U.S. Dollar Contracts	16	(3)
Fair Value of Contracts, End of Year	(129)	270

Financial assets and liabilities are only offset 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, 2013			December 31, 2012		
	Asset	Liability	Net	Asset	Liability	Net
Recognized Risk Management Positions						
Gross Amount	16	145	(129)	306	36	270
Amount Offset	(6)	(6)	-	(18)	(18)	-
Net Amount per Consolidated Financial Statements	10	139	(129)	288	18	270
As at				January 1, 2012		
				Asset	Liability	Net
Recognized Risk Management Positions						
Gross Amount				307	91	216
Amount Offset				(23)	(23)	-
Net Amount per Consolidated Financial Statements				284	68	216

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, 2013, \$10 million (December 31, 2012 – \$12 million; January 1, 2012 – \$12 million) was pledged as collateral, of which \$5 million (December 31, 2012 – \$12 million; January 1, 2012 – \$4 million) could have been withdrawn.

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

For the years ended December 31,	2013	2012	2011
Realized (Gain) Loss ⁽¹⁾	(122)	(336)	(68)
Unrealized (Gain) Loss ⁽²⁾	415	(57)	(180)
(Gain) Loss on Risk Management	293	(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.

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33. RISK MANAGEMENT

The Company 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.

A) 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.

Net Fair Value of Commodity Price Positions at December 31, 2013

As at December 31, 2013	Notional Volumes	Term	Average Price	Fair Value
Crude Oil Contracts				
Fixed Price Contracts				
Brent Fixed Price	30,000 bbls/d	2014	US\$102.04/bbl	(73)
Brent Fixed Price	20,000 bbls/d	2014	\$107.06/bbl	(64)
WCS Differential ⁽¹⁾	15,900 bbls/d	2014	US\$(20.39)/bbl	10
Other Financial Positions ⁽²⁾				1
Crude Oil Fair Value Position				(126)
Power Purchase Contracts				
Power Fair Value Position				(3)

(1) Cenovus entered into fixed price swaps to protect against widening light/heavy price differentials for heavy crudes.

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

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 could have resulted in unrealized gains (losses) impacting earnings before income tax for the year ended December 31 as follows:

Risk Management Positions in Place as at December 31, 2013

Commodity	Sensitivity Range	Increase	Decrease
Crude Oil Commodity Price	± US\$10 per bbl Applied to Brent, WTI and Condensate Hedges	(200)	200
Crude Oil Differential Price	± US\$5 per bbl Applied to Differential Hedges tied to Production	31	(31)
Natural Gas Commodity Price	± \$1 per mcf Applied to NYMEX Natural Gas Hedges	-	-
Natural Gas Basis Price	± \$0.10 per mcf Applied to Natural Gas Basis Hedges	-	-
Power Commodity Price	± \$25 per MWhr Applied to Power Hedge	19	(19)

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Risk Management Positions in Place as at December 31, 2012

Commodity	Sensitivity Range	Increase	Decrease
Crude Oil Commodity Price	± US\$10 per bbl Applied to Brent, WTI and Condensate 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 and AECO 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)

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 dollars can have a significant effect on reported results.

As disclosed in Note 8, Cenovus's foreign exchange (gain) loss primarily includes unrealized foreign exchange gains and losses on the translation of the U.S. dollar debt issued from Canada and the translation of the U.S. dollar Partnership Contribution Receivable issued from Canada. At December 31, 2013, Cenovus had US\$4,750 million in U.S. dollar debt issued from Canada (2012 – US\$4,750 million; 2011 – US\$3,500 million) and US\$nil related to the U.S. dollar Partnership Contribution Receivable (2012 – US\$1,791 million; 2011 – US\$2,157 million). In respect of these financial instruments, the impact of a \$0.01 change in the U.S. to Canadian dollar exchange rate would have resulted in a change to foreign exchange (gain) loss as follows:

For the years ended December 31,	2013	2012	2011
\$0.01 Increase in Foreign Exchange Rate	48	30	13
\$0.01 Decrease in Foreign Exchange Rate	(48)	(30)	(13)

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.

At December 31, 2013, the increase or decrease in net earnings for a one percentage point change in interest rates on floating rate debt amounts to \$nil (2012 – \$nil; 2011 – \$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 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 credit policies approved by the Audit Committee of the Board of Directors 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, 2013 and 2012, substantially all of the Company's accounts receivable were current. As at December 31, 2013, 94 percent (2012 – 87 percent) of Cenovus's accounts receivable and financial derivative credit exposures are with investment grade counterparties. Cenovus's exposure to its counterparties is within credit policy tolerances.

At December 31, 2013, Cenovus had four counterparties (2012 – 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.

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. As disclosed in Note 31, 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.

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All amounts in \$ millions, unless otherwise indicated
For the year ended December 31, 2013

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. At December 31, 2013, 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\$1.2 billion under a U.S. debt shelf prospectus, the availability of which are dependent on market conditions.

Undiscounted cash outflows relating to financial liabilities are:

2013	Less than 1 Year	1-3 Years	4-5 Years	Thereafter	Total
Accounts Payable and Accrued Liabilities	2,937	-	-	-	2,937
Risk Management Liabilities ⁽¹⁾	136	3	-	-	139
Long-Term Debt ⁽²⁾	271	537	537	8,732	10,077
Partnership Contribution Payable ⁽²⁾	520	1,040	130	-	1,690
Other ⁽²⁾	-	6	2	4	12

2012	Less than 1 Year	1-3 Years	4-5 Years	Thereafter	Total
Accounts Payable and Accrued Liabilities	2,650	-	-	-	2,650
Risk Management Liabilities ⁽¹⁾	17	1	-	-	18
Long-Term Debt ⁽²⁾	254	1,263	432	7,051	9,000
Partnership Contribution Payable ⁽²⁾	486	972	609	-	2,067
Other ⁽²⁾	-	9	4	4	17

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

(2) Principal and interest, including current portion.

34. SUPPLEMENTARY CASH FLOW INFORMATION

For the years ended December 31,	2013	2012	2011
Interest Paid	409	342	357
Interest Received	119	113	128
Income Taxes Paid	133	304	-

35. COMMITMENTS AND CONTINGENCIES

A) Commitments

As part of normal operations, the Company has committed to certain amounts over the next five years and thereafter as follows:

2013	1 Year	2 Years	3 Years	4 Years	5 Years	Thereafter	Total
Pipeline Transportation ⁽¹⁾	377	554	647	807	1,284	17,512	21,181
Operating Leases (Building Leases)	119	119	117	118	159	2,950	3,582
Product Purchases	98	20	7	-	-	-	125
Capital Commitments	52	36	30	9	21	27	175
Other Long-Term Commitments	50	40	21	17	12	116	256
Total Payments ⁽²⁾	696	769	822	951	1,476	20,605	25,319
Fixed Price Product Sales	52	54	56	3	-	-	165

2012	1 Year	2 Years	3 Years	4 Years	5 Years	Thereafter	Total
Pipeline Transportation ⁽¹⁾	145	209	378	403	675	8,130	9,940
Operating Leases (Building Leases)	109	106	112	110	104	1,602	2,143
Product Purchases	81	18	18	6	-	-	123
Capital Commitments	320	54	61	53	6	2	496
Other Long-Term Commitments	33	25	18	7	6	10	99
Total Payments ⁽²⁾	688	412	587	579	791	9,744	12,801
Fixed Price Product Sales	50	52	54	55	3	-	214

(1) Certain transportation commitments included are subject to regulatory approval.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*All amounts in \$ millions, unless otherwise indicated
For the year ended December 31, 2013*

At December 31, 2013, there were outstanding letters of credit aggregating \$78 million issued as security for performance under certain contracts (2012 – \$36 million).

In addition to the above, Cenovus's commitments related to its risk management program are disclosed in Note 33.

B) 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.

Decommissioning Liabilities

Cenovus is responsible for the retirement of long-lived assets at the end of their useful lives. Cenovus has recognized a liability of \$2,370 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.