Cenovus Energy Inc.

Interim Consolidated Financial Statements (unaudited)

For the Period Ended December 31, 2014

(Canadian Dollars)

CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME (unaudited)

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

	Notes	Three Months Ended 2014	2013	Twelve Months Ended 2014	2013
Revenues	1				
Gross Sales		**4,338**	4,827	**20,107**	18,993
Less: Royalties		**100**	80	**465**	336
		4,238	4,747	**19,642**	18,657
Expenses	1				
Purchased Product		**2,775**	2,776	**10,955**	10,399
Transportation and Blending		**577**	592	**2,477**	2,074
Operating		**486**	474	**2,066**	1,798
Production and Mineral Taxes		**10**	5	**46**	35
(Gain) Loss on Risk Management	21	**(567)**	142	**(662)**	293
Depreciation, Depletion and Amortization	11	**531**	468	**1,946**	1,833
Goodwill Impairment	13	**497**	-	**497**	-
Exploration Expense	10	**85**	5	**86**	114
General and Administrative		**67**	81	**358**	349
Finance Costs	4	**108**	122	**445**	529
Interest Income	5	**(2)**	(23)	**(33)**	(96)
Foreign Exchange (Gain) Loss, Net	6	**188**	115	**411**	208
Research Costs		**6**	10	**15**	24
(Gain) Loss on Divestiture of Assets	12	**1**	-	**(156)**	1
Other (Income) Loss, Net		**(4)**	2	**(4)**	2
Earnings (Loss) Before Income Tax		**(520)**	(22)	**1,195**	1,094
Income Tax Expense (Recovery)	7	**(48)**	36	**451**	432
Net Earnings (Loss)		**(472)**	(58)	**744**	662
Other Comprehensive Income (Loss), Net of Tax	18				
Items That Will Not be Reclassified to Profit or Loss:					
Actuarial Gain (Loss) Relating to Pension and Other Post-Retirement Benefits		**(7)**	(1)	**(18)**	14
Items That May be Reclassified to Profit or Loss:					
Change in Value of Available for Sale Financial Assets		**-**	2	**-**	10
Foreign Currency Translation Adjustment		**107**	59	**215**	117
Total Other Comprehensive Income (Loss), Net of Tax		**100**	60	**197**	141
Comprehensive Income (Loss)		**(372)**	2	**941**	803
Net Earnings (Loss) Per Common Share	8				
Basic		**$(0.62)**	$(0.08)	**$0.98**	$0.88
Diluted		**$(0.62)**	$(0.08)	**$0.98**	$0.87

See accompanying Notes to Consolidated Financial Statements (unaudited).

CONSOLIDATED BALANCE SHEETS (unaudited)

As at
($ millions)

	Notes	**December 31, 2014**	December 31, 2013
Assets			
Current Assets			
Cash and Cash Equivalents		**883**	2,452
Accounts Receivable and Accrued Revenues		**1,582**	1,874
Income Tax Receivable		**28**	15
Inventories	9	**1,224**	1,259
Risk Management	21	**478**	10
Current Assets		**4,195**	5,610
Exploration and Evaluation Assets	1,10	**1,625**	1,473
Property, Plant and Equipment, Net	1,11	**18,563**	17,334
Other Assets		**70**	68
Goodwill	1,13	**242**	739
Total Assets		**24,695**	25,224
Liabilities and Shareholders’ Equity			
Current Liabilities			
Accounts Payable and Accrued Liabilities		**2,588**	2,937
Income Tax Payable		**357**	268
Current Portion of Partnership Contribution Payable	14	**-**	438
Risk Management	21	**12**	136
Current Liabilities		**2,957**	3,779
Long-Term Debt	15	**5,458**	4,997
Partnership Contribution Payable	14	**-**	1,087
Risk Management	21	**4**	3
Decommissioning Liabilities	16	**2,616**	2,370
Other Liabilities		**172**	180
Deferred Income Taxes		**3,302**	2,862
Total Liabilities		**14,509**	15,278
Shareholders’ Equity		**10,186**	9,946
Total Liabilities and Shareholders’ Equity		**24,695**	25,224

See accompanying Notes to Consolidated Financial Statements (unaudited).

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (unaudited)

($ millions)

	Share Capital (Note 17)	Paid in Surplus	Retained Earnings	AOCI [1] (Note 18)	Total
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 Stock 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
Net Earnings	-	-	744	-	744
Other Comprehensive Income (Loss)	-	-	-	197	197
Total Comprehensive Income (Loss)	-	-	744	197	941
Common Shares Issued Under Stock Option Plans	32	-	-	-	32
Stock-Based Compensation Expense	-	72	-	-	72
Dividends on Common Shares	-	-	(805)	-	(805)
Balance as at December 31, 2014	**3,889**	**4,291**	**1,599**	**407**	**10,186**

(1) Accumulated Other Comprehensive Income (Loss).

See accompanying Notes to Consolidated Financial Statements (unaudited).

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

For the period ended December 31,
($ millions)

	Notes	Three Months Ended 2014	Three Months Ended 2013	Twelve Months Ended 2014	Twelve Months Ended 2013
Operating Activities					
Net Earnings (Loss)		**(472)**	(58)	**744**	662
Depreciation, Depletion and Amortization	11	**531**	468	**1,946**	1,833
Goodwill Impairment	13	**497**	-	**497**	-
Exploration Expense	10	**85**	5	**86**	50
Deferred Income Taxes	7	**(37)**	33	**359**	244
Unrealized (Gain) Loss on Risk Management	21	**(416)**	219	**(596)**	415
Unrealized Foreign Exchange (Gain) Loss	6	**190**	(46)	**411**	40
(Gain) Loss on Divestiture of Assets	12	**1**	-	**(156)**	1
Unwinding of Discount on Decommissioning Liabilities	4,16	**30**	25	**120**	97
Other		**(8)**	189	**68**	267
		401	835	**3,479**	3,609
Net Change in Other Assets and Liabilities		**(38)**	(30)	**(135)**	(120)
Net Change in Non-Cash Working Capital		**505**	171	**182**	50
Cash From Operating Activities		**868**	976	**3,526**	3,539
Investing Activities					
Capital Expenditures – Exploration and Evaluation Assets	10	**(81)**	(76)	**(279)**	(331)
Capital Expenditures – Property, Plant and Equipment	11	**(706)**	(824)	**(2,779)**	(2,938)
Proceeds From Divestiture of Assets	12	**1**	16	**276**	258
Net Change in Investments and Other	14	**(2)**	1,489	**(1,583)**	1,486
Net Change in Non-Cash Working Capital		**(10)**	33	**15**	6
Cash (Used in) Investing Activities		**(798)**	638	**(4,350)**	(1,519)
Net Cash Provided (Used) Before Financing Activities		**70**	1,614	**(824)**	2,020
Financing Activities					
Net Issuance (Repayment) of Short-Term Borrowings		**(139)**	(9)	**(18)**	(8)
Issuance of U.S. Unsecured Notes		**-**	-	**-**	814
Repayment of U.S. Unsecured Notes		**-**	-	**-**	(825)
Proceeds on Issuance of Common Shares		**-**	5	**28**	28
Dividends Paid on Common Shares	8	**(201)**	(183)	**(805)**	(732)
Other		**-**	-	**(2)**	(3)
Cash From (Used in) Financing Activities		**(340)**	(187)	**(797)**	(726)
Foreign Exchange Gain (Loss) on Cash and Cash Equivalents Held in Foreign Currency		**(3)**	1	**52**	(2)
Increase (Decrease) in Cash and Cash Equivalents		**(273)**	1,428	**(1,569)**	1,292
Cash and Cash Equivalents, Beginning of Period		**1,156**	1,024	**2,452**	1,160
Cash and Cash Equivalents, End of Period		**883**	2,452	**883**	2,452

See accompanying Notes to Consolidated Financial Statements (unaudited).

1. DESCRIPTION OF BUSINESS AND SEGMENTED DISCLOSURES

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

Cenovus is 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 interim 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 responsible for transporting, selling and refining crude oil into petroleum and chemical products. Cenovus jointly owns two refineries in the U.S. with the operator Phillips 66, an unrelated U.S. public company. This segment coordinates Cenovus's marketing and transportation initiatives to optimize product mix, delivery points, transportation commitments 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, financing activities and research costs. As financial instruments are settled, the realized gains and losses are recorded in the operating segment to which the derivative instrument relates. Eliminations relate to sales and operating revenues and purchased product between segments, recorded at transfer prices based on current market prices, and to unrealized intersegment profits in inventory.

Certain information provided for the prior year has been reclassified to conform to the presentation adopted for the year ended December 31, 2014.

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

All amounts in $ millions, unless otherwise indicated

A) Results of Operations – Segment and Operational Information

	Oil Sands		Conventional		Refining and Marketing	
For the three months ended December 31,	**2014**	2013	**2014**	2013	**2014**	2013
Revenues						
Gross Sales	**1,064**	1,075	**657**	692	**2,773**	3,223
Less: Royalties	**55**	38	**45**	42	**-**	-
	1,009	1,037	**612**	650	**2,773**	3,223
Expenses						
Purchased Product	**-**	-	**-**	-	**2,931**	2,939
Transportation and Blending	**494**	517	**83**	75	**-**	-
Operating	**145**	153	**161**	179	**182**	143
Production and Mineral Taxes	**-**	-	**10**	5	**-**	-
(Gain) Loss on Risk Management	**(97)**	(31)	**(36)**	(36)	**(18)**	(10)
Operating Cash Flow	**467**	398	**394**	427	**(322)**	151
Depreciation, Depletion and Amortization	**166**	133	**303**	279	**40**	36
Goodwill Impairment	**-**	-	**497**	-	**-**	-
Exploration Expense	**3**	-	**82**	5	**-**	-
Segment Income	**298**	265	**(488)**	143	**(362)**	115

	Corporate and Eliminations		Consolidated	
For the three months ended December 31,	**2014**	2013	**2014**	2013
Revenues				
Gross Sales	**(156)**	(163)	**4,338**	4,827
Less: Royalties	**-**	-	**100**	80
	(156)	(163)	**4,238**	4,747
Expenses				
Purchased Product	**(156)**	(163)	**2,775**	2,776
Transportation and Blending	**-**	-	**577**	592
Operating	**(2)**	(1)	**486**	474
Production and Mineral Taxes	**-**	-	**10**	5
(Gain) Loss on Risk Management	**(416)**	219	**(567)**	142
	418	(218)	**957**	758
Depreciation, Depletion and Amortization	**22**	20	**531**	468
Goodwill Impairment	**-**	-	**497**	-
Exploration Expense	**-**	-	**85**	5
Segment Income (Loss)	**396**	(238)	**(156)**	285
General and Administrative	**67**	81	**67**	81
Finance Costs	**108**	122	**108**	122
Interest Income	**(2)**	(23)	**(2)**	(23)
Foreign Exchange (Gain) Loss, Net	**188**	115	**188**	115
Research Costs	**6**	10	**6**	10
(Gain) Loss on Divestiture of Assets	**1**	-	**1**	-
Other (Income) Loss, Net	**(4)**	2	**(4)**	2
	364	307	**364**	307
Earnings (Loss) Before Income Tax			**(520)**	(22)
Income Tax Expense (Recovery)			**(48)**	36
Net Earnings (Loss)			**(472)**	(58)

All amounts in $ millions, unless otherwise indicated

B) Financial Results by Upstream Product

Crude Oil [1]

	Oil Sands		Conventional		Total	
For the three months ended December 31,	**2014**	2013	**2014**	2013	**2014**	2013
Revenues						
Gross Sales	**1,054**	1,053	**478**	544	**1,532**	1,597
Less: Royalties	**53**	38	**43**	40	**96**	78
	1,001	1,015	**435**	504	**1,436**	1,519
Expenses						
Transportation and Blending	**494**	517	**77**	70	**571**	587
Operating	**139**	145	**110**	126	**249**	271
Production and Mineral Taxes	**-**	-	**9**	4	**9**	4
(Gain) Loss on Risk Management	**(97)**	(30)	**(34)**	(20)	**(131)**	(50)
Operating Cash Flow	**465**	383	**273**	324	**738**	707

(1) Includes NGLs.

Natural Gas

	Oil Sands		Conventional		Total	
For the three months ended December 31,	**2014**	2013	**2014**	2013	**2014**	2013
Revenues						
Gross Sales	**9**	14	**164**	145	**173**	159
Less: Royalties	**2**	-	**2**	2	**4**	2
	7	14	**162**	143	**169**	157
Expenses						
Transportation and Blending	**-**	-	**6**	5	**6**	5
Operating	**5**	6	**48**	52	**53**	58
Production and Mineral Taxes	**-**	-	**1**	1	**1**	1
(Gain) Loss on Risk Management	**-**	(1)	**(2)**	(16)	**(2)**	(17)
Operating Cash Flow	**2**	9	**109**	101	**111**	110

Other

	Oil Sands		Conventional		Total	
For the three months ended December 31,	**2014**	2013	**2014**	2013	**2014**	2013
Revenues						
Gross Sales	**1**	8	**15**	3	**16**	11
Less: Royalties	**-**	-	**-**	-	**-**	-
	1	8	**15**	3	**16**	11
Expenses						
Transportation and Blending	**-**	-	**-**	-	**-**	-
Operating	**1**	2	**3**	1	**4**	3
Production and Mineral Taxes	**-**	-	**-**	-	**-**	-
(Gain) Loss on Risk Management	**-**	-	**-**	-	**-**	-
Operating Cash Flow	**-**	6	**12**	2	**12**	8

Total Upstream

	Oil Sands		Conventional		Total	
For the three months ended December 31,	**2014**	2013	**2014**	2013	**2014**	2013
Revenues						
Gross Sales	**1,064**	1,075	**657**	692	**1,721**	1,767
Less: Royalties	**55**	38	**45**	42	**100**	80
	1,009	1,037	**612**	650	**1,621**	1,687
Expenses						
Transportation and Blending	**494**	517	**83**	75	**577**	592
Operating	**145**	153	**161**	179	**306**	332
Production and Mineral Taxes	**-**	-	**10**	5	**10**	5
(Gain) Loss on Risk Management	**(97)**	(31)	**(36)**	(36)	**(133)**	(67)
Operating Cash Flow	**467**	398	**394**	427	**861**	825

All amounts in $ millions, unless otherwise indicated

C) Geographic Information

	Canada		United States		Consolidated	
For the three months ended December 31,	**2014**	2013	**2014**	2013	**2014**	2013
Revenues						
Gross Sales	**2,269**	2,270	**2,069**	2,557	**4,338**	4,827
Less: Royalties	**100**	80	**-**	-	**100**	80
	2,169	2,190	**2,069**	2,557	**4,238**	4,747
Expenses						
Purchased Product	**541**	497	**2,234**	2,279	**2,775**	2,776
Transportation and Blending	**577**	592	**-**	-	**577**	592
Operating	**310**	335	**176**	139	**486**	474
Production and Mineral Taxes	**10**	5	**-**	-	**10**	5
(Gain) Loss on Risk Management	**(543)**	153	**(24)**	(11)	**(567)**	142
	1,274	608	**(317)**	150	**957**	758
Depreciation, Depletion and Amortization	**490**	432	**41**	36	**531**	468
Goodwill Impairment	**497**	-	**-**	-	**497**	-
Exploration Expense	**85**	5	**-**	-	**85**	5
Segment Income	**202**	171	**(358)**	114	**(156)**	285

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

All amounts in $ millions, unless otherwise indicated

D) Results of Operations – Segment and Operational Information

	Oil Sands		Conventional		Refining and Marketing	
For the twelve months ended December 31,	**2014**	2013	**2014**	2013	**2014**	2013
Revenues						
Gross Sales	**5,036**	3,912	**3,225**	2,980	**12,658**	12,706
Less: Royalties	**236**	132	**229**	204	**-**	-
	4,800	3,780	**2,996**	2,776	**12,658**	12,706
Expenses						
Purchased Product	**-**	-	**-**	-	**11,767**	11,004
Transportation and Blending	**2,131**	1,749	**346**	325	**-**	-
Operating	**647**	555	**718**	708	**707**	540
Production and Mineral Taxes	**-**	-	**46**	35	**-**	-
(Gain) Loss on Risk Management	**(38)**	(37)	**(1)**	(104)	**(27)**	19
Operating Cash Flow	**2,060**	1,513	**1,887**	1,812	**211**	1,143
Depreciation, Depletion and Amortization	**625**	446	**1,082**	1,170	**156**	138
Goodwill Impairment	**-**	-	**497**	-	**-**	-
Exploration Expense	**4**	-	**82**	114	**-**	-
Segment Income	**1,431**	1,067	**226**	528	**55**	1,005

	Corporate and Eliminations		Consolidated	
For the twelve months ended December 31,	**2014**	2013	**2014**	2013
Revenues				
Gross Sales	**(812)**	(605)	**20,107**	18,993
Less: Royalties	**-**	-	**465**	336
	(812)	(605)	**19,642**	18,657
Expenses				
Purchased Product	**(812)**	(605)	**10,955**	10,399
Transportation and Blending	**-**	-	**2,477**	2,074
Operating	**(6)**	(5)	**2,066**	1,798
Production and Mineral Taxes	**-**	-	**46**	35
(Gain) Loss on Risk Management	**(596)**	415	**(662)**	293
	602	(410)	**4,760**	4,058
Depreciation, Depletion and Amortization	**83**	79	**1,946**	1,833
Goodwill Impairment	**-**	-	**497**	-
Exploration Expense	**-**	-	**86**	114
Segment Income (Loss)	**519**	(489)	**2,231**	2,111
General and Administrative	**358**	349	**358**	349
Finance Costs	**445**	529	**445**	529
Interest Income	**(33)**	(96)	**(33)**	(96)
Foreign Exchange (Gain) Loss, Net	**411**	208	**411**	208
Research Costs	**15**	24	**15**	24
(Gain) Loss on Divestiture of Assets	**(156)**	1	**(156)**	1
Other (Income) Loss, Net	**(4)**	2	**(4)**	2
	1,036	1,017	**1,036**	1,017
Earnings Before Income Tax			**1,195**	1,094
Income Tax Expense			**451**	432
Net Earnings			**744**	662

All amounts in $ millions, unless otherwise indicated

E) Financial Results by Upstream Product

Crude Oil [1]

For the twelve months ended December 31,	Oil Sands 2014	Oil Sands 2013	Conventional 2014	Conventional 2013	Total 2014	Total 2013
Revenues						
Gross Sales	**4,963**	3,850	**2,456**	2,373	**7,419**	6,223
Less: Royalties	**233**	131	**217**	196	**450**	327
	4,730	3,719	**2,239**	2,177	**6,969**	5,896
Expenses						
Transportation and Blending	**2,130**	1,748	**326**	305	**2,456**	2,053
Operating	**622**	531	**512**	495	**1,134**	1,026
Production and Mineral Taxes	**-**	-	**37**	32	**37**	32
(Gain) Loss on Risk Management	**(38)**	(33)	**4**	(43)	**(34)**	(76)
Operating Cash Flow	**2,016**	1,473	**1,360**	1,388	**3,376**	2,861

(1) Includes NGLs.

Natural Gas

For the twelve months ended December 31,	Oil Sands 2014	Oil Sands 2013	Conventional 2014	Conventional 2013	Total 2014	Total 2013
Revenues						
Gross Sales	**67**	38	**744**	594	**811**	632
Less: Royalties	**3**	1	**12**	8	**15**	9
	64	37	**732**	586	**796**	623
Expenses						
Transportation and Blending	**1**	1	**20**	20	**21**	21
Operating	**18**	18	**200**	209	**218**	227
Production and Mineral Taxes	**-**	-	**9**	3	**9**	3
(Gain) Loss on Risk Management	**-**	(4)	**(5)**	(61)	**(5)**	(65)
Operating Cash Flow	**45**	22	**508**	415	**553**	437

Other

For the twelve months ended December 31,	Oil Sands 2014	Oil Sands 2013	Conventional 2014	Conventional 2013	Total 2014	Total 2013
Revenues						
Gross Sales	**6**	24	**25**	13	**31**	37
Less: Royalties	**-**	-	**-**	-	**-**	-
	6	24	**25**	13	**31**	37
Expenses						
Transportation and Blending	**-**	-	**-**	-	**-**	-
Operating	**7**	6	**6**	4	**13**	10
Production and Mineral Taxes	**-**	-	**-**	-	**-**	-
(Gain) Loss on Risk Management	**-**	-	**-**	-	**-**	-
Operating Cash Flow	**(1)**	18	**19**	9	**18**	27

Total Upstream

For the twelve months ended December 31,	Oil Sands 2014	Oil Sands 2013	Conventional 2014	Conventional 2013	Total 2014	Total 2013
Revenues						
Gross Sales	**5,036**	3,912	**3,225**	2,980	**8,261**	6,892
Less: Royalties	**236**	132	**229**	204	**465**	336
	4,800	3,780	**2,996**	2,776	**7,796**	6,556
Expenses						
Transportation and Blending	**2,131**	1,749	**346**	325	**2,477**	2,074
Operating	**647**	555	**718**	708	**1,365**	1,263
Production and Mineral Taxes	**-**	-	**46**	35	**46**	35
(Gain) Loss on Risk Management	**(38)**	(37)	**(1)**	(104)	**(39)**	(141)
Operating Cash Flow	**2,060**	1,513	**1,887**	1,812	**3,947**	3,325

All amounts in $ millions, unless otherwise indicated

F) Geographic Information

For the twelve months ended December 31,	Canada		United States		Consolidated	
	2014	2013	**2014**	2013	**2014**	2013
Revenues						
Gross Sales	**10,604**	8,943	**9,503**	10,050	**20,107**	18,993
Less: Royalties	**465**	336	**-**	-	**465**	336
	10,139	8,607	**9,503**	10,050	**19,642**	18,657
Expenses						
Purchased Product	**2,310**	2,022	**8,645**	8,377	**10,955**	10,399
Transportation and Blending	**2,477**	2,074	**-**	-	**2,477**	2,074
Operating	**1,387**	1,276	**679**	522	**2,066**	1,798
Production and Mineral Taxes	**46**	35	**-**	-	**46**	35
(Gain) Loss on Risk Management	**(625)**	275	**(37)**	18	**(662)**	293
	4,544	2,925	**216**	1,133	**4,760**	4,058
Depreciation, Depletion and Amortization	**1,790**	1,695	**156**	138	**1,946**	1,833
Goodwill Impairment	**497**	-	**-**	-	**497**	-
Exploration Expense	**86**	114	**-**	-	**86**	114
Segment Income	**2,171**	1,116	**60**	995	**2,231**	2,111

G) 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 three months ended December 31, 2014 was $382 million and $(321) million, respectively (three months ended December 31, 2013 – $355 million and $154 million). Cenovus's share of operating cash flow from FCCL and WRB for the year ended December 31, 2014 was $1,933 million and $214 million, respectively (year ended December 31, 2013 – $1,383 million and $1,144 million).

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

By Segment

As at	E&E (1)		PP&E (2)	
	December 31, 2014	December 31, 2013	**December 31, 2014**	December 31, 2013
Oil Sands	**1,540**	1,328	**8,606**	7,401
Conventional	**85**	145	**6,038**	6,291
Refining and Marketing	**-**	-	**3,568**	3,269
Corporate and Eliminations	**-**	-	**351**	373
Consolidated	**1,625**	1,473	**18,563**	17,334

As at	Goodwill		Total Assets	
	December 31, 2014	December 31, 2013	**December 31, 2014**	December 31, 2013
Oil Sands	**242**	242	**11,024**	9,564
Conventional	**-**	497	**6,211**	7,220
Refining and Marketing	**-**	-	**5,520**	5,491
Corporate and Eliminations	**-**	-	**1,940**	2,949
Consolidated	**242**	739	**24,695**	25,224

(1) Exploration and evaluation ("E&E") assets.
(2) Property, plant and equipment ("PP&E").

All amounts in $ millions, unless otherwise indicated

By Geographic Region

	E&E		PP&E	
As at	**December 31, 2014**	December 31, 2013	**December 31, 2014**	December 31, 2013
Canada	**1,625**	1,473	**14,999**	14,066
United States	**-**	-	**3,564**	3,268
Consolidated	**1,625**	1,473	**18,563**	17,334

	Goodwill		Total Assets	
As at	**December 31, 2014**	December 31, 2013	**December 31, 2014**	December 31, 2013
Canada	**242**	739	**20,231**	20,548
United States	**-**	-	**4,464**	4,676
Consolidated	**242**	739	**24,695**	25,224

I) Capital Expenditures [(1)]

	Three Months Ended		Twelve Months Ended	
For the period ended December 31,	**2014**	2013	**2014**	2013
Capital				
Oil Sands	**494**	502	**1,986**	1,885
Conventional	**219**	331	**840**	1,189
Refining and Marketing	**52**	37	**163**	107
Corporate	**21**	28	**62**	81
	786	898	**3,051**	3,262
Acquisition Capital				
Oil Sands [(2)]	**-**	26	**15**	27
Conventional	**1**	1	**3**	5
	787	925	**3,069**	3,294

(1) Includes expenditures on PP&E and E&E.
(2) 2014 asset acquisition includes the assumption of a decommissioning liability of $10 million.

2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

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

These interim Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including International Accounting Standard 34, "*Interim Financial Reporting*" ("IAS 34"), and have been prepared following the same accounting policies and methods of computation as the annual Consolidated Financial Statements for the year ended December 31, 2013, except for income taxes. Income taxes on earnings or loss in the interim periods are accrued using the income tax rate that would be applicable to the expected total annual earnings or loss. The disclosures provided are incremental to those included with the annual Consolidated Financial Statements. Certain information and disclosures normally included in the notes to the annual Consolidated Financial Statements have been condensed or have been disclosed on an annual basis only. Accordingly, these interim Consolidated Financial Statements should be read in conjunction with the annual Consolidated Financial Statements for the year ended December 31, 2013, which have been prepared in accordance with IFRS as issued by the IASB.

These interim Consolidated Financial Statements of Cenovus were approved by the Audit Committee effective February 11, 2015.

All amounts in $ millions, unless otherwise indicated

3. RECENT ACCOUNTING PRONOUNCEMENTS

A) New and Amended Accounting Standards and Interpretations Adopted

Offsetting Financial Assets and Financial Liabilities

Effective January 1, 2014, the Company adopted, as required, amendments to IAS 32, *"Financial Instruments: Presentation"* ("IAS 32"). The amendments clarify that the right to offset financial assets and liabilities must be available on the current date and cannot be contingent on a future event. The adoption of IAS 32 did not impact the interim Consolidated Financial Statements.

B) New Accounting Standards and Interpretations not yet Adopted

Revenue Recognition

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

The new standard is effective for annual periods beginning on or after January 1, 2017, with earlier adoption permitted. The standard may be applied retrospectively or using a modified retrospective approach. The Company is currently evaluating the impact of adopting IFRS 15 on the Consolidated Financial Statements.

Financial Instruments

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

IFRS 9 introduces a single approach to determine whether a financial asset is measured at amortized cost or fair value and replaces the multiple rules in IAS 39. The approach is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. 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. In addition, a new expected credit loss model for calculating impairment on financial assets replaces the incurred loss impairment model used in IAS 39. The new model will result in more timely recognition of expected credit losses. IFRS 9 also includes a simplified hedge accounting model, aligning hedge accounting more closely with risk management. Cenovus does not currently apply hedge accounting.

IFRS 9 is effective for years beginning on or after January 1, 2018. Early adoption is permitted if IFRS 9 is adopted in its entirety at the beginning of a fiscal period. The Company is currently evaluating the impact of adopting IFRS 9 on the Consolidated Financial Statements.

4. FINANCE COSTS

	Three Months Ended		**Twelve Months Ended**	
For the period ended December 31,	**2014**	2013	**2014**	2013
Interest Expense – Short-Term Borrowings and Long-Term Debt	**73**	68	**285**	271
Premium on Redemption of Long-Term Debt	**-**	-	**-**	33
Interest Expense – Partnership Contribution Payable (Note 14)	**-**	23	**22**	98
Unwinding of Discount on Decommissioning Liabilities (Note 16)	**30**	25	**120**	97
Other	**5**	6	**18**	30
	108	122	**445**	529

All amounts in $ millions, unless otherwise indicated

5. INTEREST INCOME

For the period ended December 31,	Three Months Ended **2014**	2013	Twelve Months Ended **2014**	2013
Interest Income – Partnership Contribution Receivable [1]	**-**	(17)	**-**	(82)
Other	**(2)**	(6)	**(33)**	(14)
	(2)	(23)	**(33)**	(96)

(1) Principal and accrued interest on Partnership Contribution Receivable was received December 17, 2013.

6. FOREIGN EXCHANGE (GAIN) LOSS, NET

For the period ended December 31,	Three Months Ended **2014**	2013	Twelve Months Ended **2014**	2013
Unrealized Foreign Exchange (Gain) Loss on Translation of:				
U.S. Dollar Debt Issued From Canada	**186**	167	**458**	357
U.S. Dollar Partnership Contribution Receivable Issued From Canada	**-**	(206)	**-**	(305)
Other	**4**	(7)	**(47)**	(12)
Unrealized Foreign Exchange (Gain) Loss	**190**	(46)	**411**	40
Realized Foreign Exchange (Gain) Loss	**(2)**	161	**-**	168
	188	115	**411**	208

7. INCOME TAXES

The provision for income taxes is:

For the period ended December 31,	Three Months Ended **2014**	2013	Twelve Months Ended **2014**	2013
Current Tax				
Canada	**12**	(4)	**94**	143
United States	**(23)**	7	**(2)**	45
Total Current Tax	**(11)**	3	**92**	188
Deferred Tax	**(37)**	33	**359**	244
	(48)	36	**451**	432

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

For the period ended December 31,	Twelve Months Ended **2014**	2013
Earnings Before Income Tax	**1,195**	1,094
Canadian Statutory Rate	**25.2%**	25.2%
Expected Income Tax	**301**	276
Effect of Taxes Resulting From:		
Foreign Tax Rate Differential	**(43)**	87
Non-Deductible Stock-Based Compensation	**13**	10
Foreign Exchange Gains (Losses) Not Included in Net Earnings	**(13)**	19
Non-Taxable Capital (Gains) Losses	**124**	31
Derecognition (Recognition) of Capital Losses	**(9)**	15
Adjustments Arising From Prior Year Tax Filings	**(16)**	(13)
Goodwill Impairment	**125**	-
Other	**(31)**	7
Total Tax	**451**	432
Effective Tax Rate	**37.7%**	39.5%

8. PER SHARE AMOUNTS

A) Net Earnings Per Share

For the period ended December 31,	Three Months Ended 2014	2013	Twelve Months Ended 2014	2013
Net Earnings (Loss) – Basic and Diluted ($ millions)	**(472)**	(58)	**744**	662
Basic – Weighted Average Number of Shares (millions)	**757.1**	755.9	**756.9**	755.9
Dilutive Effect of Cenovus TSARs [1]	**-**	1.3	**0.7**	1.6
Dilutive Effect of Cenovus NSRs [2]	**-**	-	**-**	-
Diluted – Weighted Average Number of Shares	**757.1**	757.2	**757.6**	757.5
Net Earnings (Loss) Per Common Share ($)				
Basic	**$(0.62)**	$(0.08)	**$0.98**	$0.88
Diluted	**$(0.62)**	$(0.08)	**$0.98**	$0.87

(1) Tandem stock appreciation rights ("TSARs").
(2) Net settlement rights ("NSRs").

B) Dividends Per Share

The Company paid dividends of $805 million or $1.0648 per share for the year ended December 31, 2014 (December 31, 2013 – $732 million, $0.968 per share). The Cenovus Board of Directors declared a first quarter dividend of $0.2662 per share, payable on March 31, 2015, to common shareholders of record as of March 13, 2015.

9. INVENTORIES

As at	December 31, 2014	December 31, 2013
Product		
Refining and Marketing	**972**	1,047
Oil Sands	**182**	156
Conventional	**28**	17
Parts and Supplies	**42**	39
	1,224	1,259

As a result of a decline in refined product and crude oil prices, Cenovus recorded a write-down of its product inventory of $131 million from cost to net realizable value as at December 31, 2014.

All amounts in $ millions, unless otherwise indicated

10. EXPLORATION AND EVALUATION ASSETS

COST	
As at December 31, 2012	1,285
Additions	331
Transfers to PP&E (Note 11)	(95)
Exploration Expense	(50)
Divestitures	(17)
Change in Decommissioning Liabilities	19
As at December 31, 2013	1,473
Additions	279
Transfers to PP&E (Note 11)	(53)
Exploration Expense	(86)
Divestitures	(2)
Change in Decommissioning Liabilities	14
As at December 31, 2014	**1,625**

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, 2014 include $51 million of internal costs directly related to the evaluation of these projects (year ended December 31, 2013 – $60 million). No borrowing costs or costs classified as general and administrative expenses have been capitalized during the year ended December 31, 2014 (2013 – $nil).

For the year ended December 31, 2014, $53 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, 2013 – $95 million).

Impairment

The impairment of E&E assets and any subsequent reversal of such impairment losses are recorded in exploration expense in the Consolidated Statements of Earnings and Comprehensive Income. For the year ended December 31, 2014, $82 million of previously capitalized E&E costs related to exploration assets within the Northern Alberta CGU were deemed not to be technically feasible and commercially viable and were recorded as exploration expense in the Conventional segment. In addition, $4 million of costs related to the expiry of leases in the Borealis CGU were recorded as exploration expense in the Oil Sands segment.

In 2013, $50 million of previously capitalized E&E costs were deemed not to be technically feasible and commercially viable and were recorded as exploration expense in the Conventional segment.

All amounts in $ millions, unless otherwise indicated

11. PROPERTY, PLANT AND EQUIPMENT, NET

	Upstream Assets				
	Development & Production	Other Upstream	Refining Equipment	Other [(1)]	Total
COST					
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 10)	95	-	-	-	95
Transfers to Assets Held for Sale	(450)	-	-	-	(450)
Change in Decommissioning Liabilities	40	-	(1)	-	39
Exchange Rate Movements and Other	-	-	150	-	150
As at December 31, 2013	29,390	286	3,654	849	34,179
Additions [(2)]	2,522	43	162	63	2,790
Transfers From E&E Assets (Note 10)	53	-	-	-	53
Transfers to Assets Held for Sale	(55)	-	-	-	(55)
Change in Decommissioning Liabilities	264	-	(3)	-	261
Exchange Rate Movements and Other	1	-	338	-	339
Divestitures	(474)	-	-	(2)	(476)
As at December 31, 2014	**31,701**	**329**	**4,151**	**910**	**37,091**
ACCUMULATED DEPRECIATION, DEPLETION AND AMORTIZATION					
As at December 31, 2012	14,390	158	311	396	15,255
Depreciation, Depletion and Amortization	1,522	35	138	79	1,774
Transfers to Assets Held for Sale	(180)	-	-	-	(180)
Impairment Losses	59	-	-	-	59
Exchange Rate Movements and Other	-	-	(63)	-	(63)
As at December 31, 2013	15,791	193	386	475	16,845
Depreciation, Depletion and Amortization	1,602	40	156	83	1,881
Transfers to Assets Held for Sale	(27)	-	-	-	(27)
Impairment Losses	65	-	-	-	65
Exchange Rate Movements and Other	38	-	42	-	80
Divestitures	(316)	-	-	-	(316)
As at December 31, 2014	**17,153**	**233**	**584**	**558**	**18,528**
CARRYING VALUE					
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
As at December 31, 2014	**14,548**	**96**	**3,567**	**352**	**18,563**

(1) Includes office furniture, fixtures, leasehold improvements, information technology and aircraft.
(2) 2014 asset acquisition includes the assumption of a decommissioning liability of $10 million.

Additions to development and production assets include internal costs directly related to the development and construction of crude oil and natural gas properties of $216 million for the year ended December 31, 2014 (year ended December 31, 2013 – $204 million). All of the Company's development and production assets are located within Canada. No borrowing costs or costs classified as general and administrative expenses have been capitalized during the year ended December 31, 2014 (2013 – $nil).

PP&E includes the following amounts in respect of assets under construction and are not subject to depreciation, depletion and amortization ("DD&A"):

As at	December 31, 2014	December 31, 2013
Development and Production	**478**	225
Refining Equipment	**159**	97
	637	322

Impairment

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

All amounts in $ millions, unless otherwise indicated

DD&A expense includes impairment losses as follows:

	Three Months Ended		Twelve Months Ended	
For the period ended December 31,	**2014**	2013	**2014**	2013
Development and Production	**52**	-	**65**	59
Refining Equipment	**-**	-	**-**	-
	52	-	**65**	59

In the fourth quarter of 2014, the Company impaired equipment for $52 million. The Company does not have future plans for the equipment and does not believe it will recover the carrying amount through a sale. The asset has been written down to fair value less costs of disposal. In the second quarter of 2014, a minor natural gas property was shut-in and abandonment commenced. These impairments have been recorded in DD&A in the Conventional segment.

In 2013, the Company impaired its Lower Shaunavon asset for $57 million prior to its divestiture. The impairment was recorded in DD&A in the Conventional segment.

12. DIVESTITURES

In the third quarter, the Company completed the sale of certain Wainwright properties to an unrelated third party for net proceeds of $234 million. A gain of $137 million was recorded on the sale. These assets, related liabilities and results of operations were reported in the Conventional segment.

In the second quarter, the Company completed the sale of certain Bakken properties to an unrelated third party for net proceeds of $35 million, resulting in a gain of $16 million. The Company also completed the sale of certain non-core properties and recorded a total gain of $4 million. These assets, related liabilities and results of operations were reported in the Conventional segment.

In 2013, the Company completed the sale of the Lower Shaunavon asset to an unrelated third party for net proceeds of $241 million, resulting in a loss of $2 million. These assets, related liabilities and results of operations were reported in the Conventional segment. Other divestitures in 2013 included 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.

13. GOODWILL

As at	**December 31, 2014**	December 31, 2013
Carrying Value, Beginning of Year	**739**	739
Impairment	**(497)**	-
Carrying Value, End of Year	**242**	739

There were no additions to goodwill during the years ended December 31, 2014 and 2013.

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 is:

As at	**December 31, 2014**	December 31, 2013
Primrose (Foster Creek)	**242**	242
Northern Alberta	**-**	497
	242	739

All amounts in $ millions, unless otherwise indicated

At December 31, 2014, the Company determined that the carrying amount of the Northern Alberta CGU exceeded its recoverable amount and the full amount of the impairment was attributed to goodwill. An impairment loss of $497 million was recorded as goodwill impairment on the Consolidated Statements of Earnings and Comprehensive Income. The Northern Alberta CGU includes the Pelican Lake and Elk Point producing assets and other emerging assets in the exploration and evaluation stage. The operating results of the CGU are included in the Conventional segment. Future cash flows for the CGU declined due to lower crude oil prices and a slowing down of the Pelican Lake development plan.

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

There were no impairments of goodwill in the year ended December 31, 2013.

Crude Oil and Natural Gas Prices

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

	2015	2016	2017	2018	2019	Average Annual % Change to 2025
WTI (US$/barrel) (1)	65.00	75.00	80.00	84.90	89.30	2.5%
WCS ($/barrel) (2)	57.60	69.90	74.70	79.50	83.70	2.5%
AECO ($/Mcf) (3)	3.50	4.00	4.25	4.50	4.70	4.1%

(1) West Texas Intermediate ("WTI").
(2) Western Canadian Select ("WCS").
(3) Assumes gas heating value of 1 million British Thermal Units per thousand cubic feet.

Discount and Inflation Rates

Evaluations of discounted future cash flows are initiated using the discount rate of 10 percent and inflation is estimated at two percent, which is common industry practice and used by Cenovus's 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 economic conditions could significantly change the estimated recoverable amount.

There were no impairments of goodwill in the year ended December 31, 2013.

Sensitivities

Changes to the assumed discount rate or forward price estimates over the life of the reserves independently would have the following impact on the impairment of the Northern Alberta CGU:

	One Percent Increase in the Discount Rate	**Five Percent Decrease in the Forward Price Estimates**
Impairment of Goodwill	**-**	**-**
Impairment of PP&E	**134**	**419**

14. PARTNERSHIP CONTRIBUTION PAYABLE

On March 28, 2014, Cenovus repaid the remaining principal and accrued interest due under the Partnership Contribution Payable.

All amounts in $ millions, unless otherwise indicated

15. LONG-TERM DEBT

As at	**December 31, 2014**	December 31, 2013
Revolving Term Debt [(1)]	**-**	-
U.S. Dollar Denominated Unsecured Notes	**5,510**	5,052
Total Debt Principal	**5,510**	5,052
Debt Discounts and Transaction Costs	**(52)**	(55)
	5,458	4,997

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

As at December 31, 2014, the Company is in compliance with all of the terms of its debt agreements.

On June 24, 2014, Cenovus filed a U.S. base shelf prospectus for unsecured notes in the amount of US$2.0 billion. The U.S. base shelf prospectus allows for the issuance of debt securities in U.S. dollars or other currencies from time to time in one or more offerings. Terms of the notes, including, but not limited to, interest at either fixed or floating rates and maturity dates will be determined at the date of issue. As at December 31, 2014, no notes have been issued under this U.S. base shelf prospectus. The U.S. base shelf prospectus expires in July 2016.

On June 25, 2014, Cenovus filed a Canadian base shelf prospectus for unsecured medium term notes in the amount of $1.5 billion. The Canadian base shelf prospectus allows for the issuance of medium term notes in Canadian dollars or other currencies from time to time in one or more offerings. Terms of the notes, including, but not limited to, interest at either fixed or floating rates and maturity dates will be determined at the date of issue. As at December 31, 2014, no medium term notes have been issued under this Canadian base shelf prospectus. The Canadian base shelf prospectus expires in July 2016.

In November 2014, Cenovus renegotiated its existing $3.0 billion committed credit facility, extending the maturity date to November 30, 2018.

16. 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, 2014**	December 31, 2013
Decommissioning Liabilities, Beginning of Year	**2,370**	2,315
Liabilities Incurred	**48**	45
Liabilities Settled	**(93)**	(76)
Liabilities Divested	**(60)**	-
Transfers and Reclassifications	**(9)**	(26)
Change in Estimated Future Cash Flows	**115**	414
Change in Discount Rate	**122**	(401)
Unwinding of Discount on Decommissioning Liabilities	**120**	97
Foreign Currency Translation	**3**	2
Decommissioning Liabilities, End of Year	**2,616**	2,370

The undiscounted amount of estimated future cash flows required to settle the obligation has been discounted using a credit-adjusted risk-free rate of 4.9 percent as at December 31, 2014 (December 31, 2013 – 5.2 percent). The Company expects to settle approximately $50 million to $100 million of decommissioning liabilities over the next year.

17. SHARE CAPITAL

A) Authorized

Cenovus is authorized to issue an unlimited number of common shares and, subject to certain conditions, an unlimited number of first preferred and second preferred shares. The first and second preferred shares may be issued in one or more series with rights and conditions to be determined by the Company's Board of Directors prior to issuance and subject to the Company's articles.

B) Issued and Outstanding

	December 31, 2014		December 31, 2013	
As at	**Number of Common Shares** (Thousands)	**Amount**	Number of Common Shares (Thousands)	Amount
Outstanding, Beginning of Year	**756,046**	**3,857**	755,843	3,829
Common Shares Issued Under Stock Option Plans	**1,057**	**32**	970	31
Common Shares Cancelled	**-**	**-**	(767)	(3)
Outstanding, End of Year	**757,103**	**3,889**	756,046	3,857

There were no preferred shares outstanding as at December 31, 2014 (December 31, 2013 – nil).

As at December 31, 2014, there were 13 million (December 31, 2013 – 24 million) common shares available for future issuance under stock option plans.

18. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

As at December 31, 2014	**Defined Benefit Plan**	**Foreign Currency Translation**	**Available for Sale Investments**	**Total**
Balance, Beginning of Year	**(12)**	**212**	**10**	**210**
Other Comprehensive Income (Loss), Before Tax	**(24)**	**215**	**-**	**191**
Income Tax	**6**	**-**	**-**	**6**
Balance, End of Year	**(30)**	**427**	**10**	**407**

As at December 31, 2013	Defined Benefit Plan	Foreign Currency Translation	Available for Sale Investments	Total
Balance, Beginning of Year	(26)	95	-	69
Other Comprehensive Income (Loss), Before Tax	18	117	13	148
Income Tax	(4)	-	(3)	(7)
Balance, End of Year	(12)	212	10	210

19. 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. Options issued under the plan have associated TSARs or NSRs.

The following table is a summary of the options outstanding at the end of the period:

As at December 31, 2014	**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**	**5.13**	**32.63**	**23.97**	**40,549**
TSARs	Prior to February 17, 2010	**5**	**0.07**	**25.58**	**23.97**	**21**
TSARs	On or After February 17, 2010	**7**	**2.20**	**26.72**	**23.97**	**3,841**

NSRs

The weighted average unit fair value of NSRs granted during the year ended December 31, 2014 was $4.70 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.

The following table summarizes information related to the NSRs:

As at December 31, 2014	Number of NSRs (Thousands)	Weighted Average Exercise Price ($)
Outstanding, Beginning of Year	26,315	35.26
Granted	16,307	28.59
Exercised	(125)	32.24
Forfeited	(1,948)	34.31
Outstanding, End of Year	**40,549**	**32.63**
Exercisable, End of Year	**13,439**	**36.18**

For options exercised during the year, the weighted average market price of Cenovus's common shares at the date of exercise was $34.06.

TSARs

The Company has recorded a liability of $8 million as at December 31, 2014 (December 31, 2013 – $33 million) in the Consolidated Balance Sheets based on the fair value of each TSAR held by Cenovus employees. The intrinsic value of vested TSARs held by Cenovus employees as at December 31, 2014 was $nil (December 31, 2013 – $27 million).

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

As at December 31, 2014	Number of TSARs (Thousands)	Weighted Average Exercise Price ($)
Outstanding, Beginning of Year	7,086	26.56
Exercised for Cash Payment	(2,106)	26.34
Exercised as Options for Common Shares	(1,044)	26.38
Forfeited	(13)	28.66
Expired	(61)	26.38
Outstanding, End of Year	**3,862**	**26.72**
Exercisable, End of Year	**3,862**	**26.72**

For options exercised during the year, the weighted average market price of Cenovus's common shares at the date of exercise was $30.14.

B) Performance Share Units

The Company has recorded a liability of $109 million as at December 31, 2014 (December 31, 2013 – $103 million) in the Consolidated Balance Sheets for performance share units ("PSUs") based on the market value of Cenovus's common shares as at December 31, 2014. The intrinsic value of vested PSUs was $nil as at December 31, 2014 and December 31, 2013 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, 2014	Number of PSUs (Thousands)
Outstanding, Beginning of Year	5,785
Granted	3,012
Vested and Paid Out	(1,625)
Cancelled	(328)
Units in Lieu of Dividends	255
Outstanding, End of Year	**7,099**

C) Deferred Share Units

The Company has recorded a liability of $31 million as at December 31, 2014 (December 31, 2013 – $36 million) in the Consolidated Balance Sheets for deferred share units ("DSUs") based on the market value of Cenovus's common shares as at December 31, 2014. The intrinsic value of vested DSUs equals the carrying value as DSUs vest at the time of grant.

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

As at December 31, 2014	Number of DSUs (Thousands)
Outstanding, Beginning of Year	**1,192**
Granted to Directors	**57**
Granted From Annual Bonus Awards	**7**
Units in Lieu of Dividends	**46**
Redeemed	**(5)**
Outstanding, End of Year	**1,297**

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 period ended December 31,	Three Months Ended 2014	2013	Twelve Months Ended 2014	2013
NSRs	**8**	9	**41**	35
TSARs	**(7)**	(5)	**(10)**	(16)
PSUs	**(15)**	-	**34**	32
DSUs	**(7)**	-	**(5)**	-
Stock-Based Compensation Expense (Recovery)	**(21)**	4	**60**	51

20. 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. 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, 2014	December 31, 2013
Long-Term Debt	**5,458**	4,997
Shareholders' Equity	**10,186**	9,946
Capitalization	**15,644**	14,943
Debt to Capitalization	**35%**	33%

All amounts in $ millions, unless otherwise indicated

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

As at	**December 31, 2014**	December 31, 2013
Debt	**5,458**	4,997
Net Earnings	**744**	662
Add (Deduct):		
Finance Costs	**445**	529
Interest Income	**(33)**	(96)
Income Tax Expense	**451**	432
Depreciation, Depletion and Amortization	**1,946**	1,833
Goodwill Impairment	**497**	-
E&E Impairment	**86**	50
Unrealized (Gain) Loss on Risk Management	**(596)**	415
Foreign Exchange (Gain) Loss, Net	**411**	208
(Gain) Loss on Divestitures of Assets	**(156)**	1
Other (Income) Loss, Net	**(4)**	2
Adjusted EBITDA	**3,791**	4,036
Debt to Adjusted EBITDA	**1.4x**	1.2x

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. It is Cenovus's intention to maintain investment grade credit ratings.

As at December 31, 2014, Cenovus had $3.0 billion available on its committed credit facility. In addition, Cenovus had in place a $1.5 billion Canadian base shelf prospectus and a US$2.0 billion U.S. base shelf prospectus, the availability of which are dependent on market conditions.

As at December 31, 2014, Cenovus is in compliance with all of the terms of its debt agreements.

21. 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 Payable, 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.

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 Payable 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, 2014, the carrying value of Cenovus's long-term debt was $5,458 million and the fair value was $5,726 million (December 31, 2013 carrying value – $4,997 million, fair value – $5,388 million).

All amounts in $ millions, unless otherwise indicated

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. The following table provides a reconciliation of changes in the fair value of available for sale financial assets:

As at	**December 31, 2014**	December 31, 2013
Fair Value, Beginning of Year	**32**	14
Acquisition of Investments	**4**	5
Reclassification of Equity Investments	**(4)**	-
Change in Fair Value [1]	**-**	13
Fair Value, End of Year	**32**	32

(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 as at December 31, 2014 range from $33.50 to $54.75 per Megawatt Hour.

Summary of Unrealized Risk Management Positions

	December 31, 2014			December 31, 2013		
	Risk Management			Risk Management		
As at	**Asset**	**Liability**	**Net**	Asset	Liability	Net
Commodity Prices						
Crude Oil	**423**	**7**	**416**	10	136	(126)
Natural Gas	**55**	**-**	**55**	-	-	-
Power	**-**	**9**	**(9)**	-	3	(3)
Total Fair Value	**478**	**16**	**462**	10	139	(129)

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

As at	**December 31, 2014**	December 31, 2013
Prices Sourced From Observable Data or Market Corroboration (Level 2)	**471**	(126)
Prices Determined From Unobservable Inputs (Level 3)	**(9)**	(3)
	462	(129)

Prices sourced from observable data or market corroboration refers to the fair value of contracts valued in part using active quotes and in part using observable, market-corroborated data. Prices determined from unobservable inputs refers to the fair value of contracts valued using data that is both unobservable and significant to the overall fair value measurement.

The following table provides a reconciliation of changes in the fair value of Cenovus's risk management assets and liabilities from January 1 to December 31:

	2014	2013
Fair Value of Contracts, Beginning of Year	**(129)**	270
Fair Value of Contracts Realized During the Year [1]	**(66)**	(122)
Change in Fair Value of Contracts in Place at Beginning of Year and Contracts Entered Into During the Year [1]	**662**	(293)
Unrealized Foreign Exchange Gain (Loss) on U.S. Dollar Contracts	**(5)**	16
Fair Value of Contracts, End of Year	**462**	(129)

(1) Includes a realized gain of $4 million and a decrease in fair value of $10 million related to the power contracts.

All amounts in $ millions, unless otherwise indicated

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

For the period ended December 31,	Three Months Ended **2014**	2013	Twelve Months Ended **2014**	2013
Realized (Gain) Loss [1]	**(151)**	(77)	**(66)**	(122)
Unrealized (Gain) Loss [2]	**(416)**	219	**(596)**	415
(Gain) Loss on Risk Management	**(567)**	142	**(662)**	293

(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.

22. 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 description of the nature and extent of risks arising from the Company's financial assets and liabilities can be found in the notes to the annual Consolidated Financial Statements as at December 31, 2013. The Company's exposure to these risks has not changed significantly since December 31, 2013.

Net Fair Value of Commodity Price Positions as at December 31, 2014

As at December 31, 2014	Notional Volumes	Term	Average Price	Fair Value
Crude Oil Contracts				
Fixed Price Contracts				
Brent Fixed Price	18,000 bbls/d	2015	$113.75/bbl	**269**
Brent Fixed Price	1,000 bbls/d	January – June 2015	$100.25/bbl	**5**
Brent Fixed Price	6,000 bbls/d	January – June 2015	US$65.03/bbl	**6**
WCS Differential [1]	5,000 bbls/d	January – June 2015	US$(19.85)/bbl	**(2)**
Brent Collars	10,000 bbls/d	2015	$105.25 – $123.57/bbl	**121**
Other Financial Positions [2]				**17**
Crude Oil Fair Value Position				**416**
Natural Gas Contracts				
Fixed Price Contracts				
AECO Fixed Price	149 MMcf/d	2015	$3.86/Mcf	**55**
Natural Gas Fair Value Position				**55**
Power Purchase Contracts				
Power Fair Value Position				**(9)**

(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.

All amounts in $ millions, unless otherwise indicated

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 could have resulted in unrealized gains (losses) impacting earnings before income tax as follows:

Risk Management Positions in Place as at December 31, 2014

Commodity	Sensitivity Range	Increase	Decrease
Crude Oil Commodity Price	± US$10 per bbl Applied to Brent, WTI and Condensate Hedges	(145)	146
Crude Oil Differential Price	± US$5 per bbl Applied to Differential Hedges Tied to Production	5	(5)
Natural Gas Commodity Price	± US$1 per Mcf Applied to NYMEX and AECO Natural Gas Hedges	(70)	70
Power Commodity Price	± $25 per MWHr Applied to Power Hedge	19	(19)

23. COMMITMENTS AND CONTINGENCIES

A) Commitments

During the year ended December 31, 2014, the Company's various firm transportation agreements increased by $7 billion due primarily to increased costs and tolls on existing commitments, resulting in total transportation commitments of $28 billion. These agreements, some of which are subject to regulatory approval, are for terms up to 20 years subsequent to the date of commencement.

B) 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.