Cenovus Energy Inc.

Consolidated Financial Statements

For the Year Ended December 31, 2015

(Canadian Dollars)

CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

TABLE OF CONTENTS

REPORT OF MANAGEMENT 3
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM 4
CONSOLIDATED STATEMENTS OF EARNINGS 5
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME 5
CONSOLIDATED BALANCE SHEETS 6
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY 7
CONSOLIDATED STATEMENTS OF CASH FLOWS 8
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 9

1. DESCRIPTION OF BUSINESS AND SEGMENTED DISCLOSURES 9
2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE 13
3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES 13
4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY 21
5. FINANCE COSTS 23
6. INTEREST INCOME 23
7. FOREIGN EXCHANGE (GAIN) LOSS, NET 23
8. DIVESTITURES 24
9. IMPAIRMENTS 24
10. INCOME TAXES 26
11. PER SHARE AMOUNTS 29
12. CASH AND CASH EQUIVALENTS 29
13. ACCOUNTS RECEIVABLE AND ACCRUED REVENUES 29
14. INVENTORIES 30
15. EXPLORATION AND EVALUATION ASSETS 30
16. PROPERTY, PLANT AND EQUIPMENT, NET 31
17. ACQUISITION 32
18. OTHER ASSETS 32
19. GOODWILL 32
20. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES 32
21. LONG-TERM DEBT 32
22. DECOMMISSIONING LIABILITIES 34
23. OTHER LIABILITIES 34
24. PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS 35
25. SHARE CAPITAL 38
26. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) 39
27. STOCK-BASED COMPENSATION PLANS 39
28. EMPLOYEE SALARIES AND BENEFIT EXPENSES 43
29. RELATED PARTY TRANSACTIONS 43
30. CAPITAL STRUCTURE 44
31. FINANCIAL INSTRUMENTS 45
32. RISK MANAGEMENT 47
33. SUPPLEMENTARY CASH FLOW INFORMATION 50
34. COMMITMENTS AND CONTINGENCIES 50

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 four 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, 2015. In making its assessment, Management has used the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") framework in Internal Control – Integrated Framework (2013) to evaluate the design and effectiveness of internal control over financial reporting. Based on our evaluation, Management has concluded that internal control over financial reporting was effective as at December 31, 2015.

PricewaterhouseCoopers LLP, an independent firm of Chartered Professional Accountants, was appointed to audit and provide independent opinions on both the Consolidated Financial Statements and internal control over financial reporting as at December 31, 2015, as stated in their Report of Independent Registered Public Accounting Firm dated February 10, 2016. PricewaterhouseCoopers LLP has provided such opinions.

(signed) *"Brian C. Ferguson"*

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

(signed) *"Ivor M. Ruste"*

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

February 10, 2016

Report of Independent Registered Public Accounting Firm

To the Shareholders of Cenovus Energy Inc.

We have audited the accompanying Consolidated Balance Sheets of Cenovus Energy Inc. as of December 31, 2015 and December 31, 2014 and the Consolidated Statements of Earnings, Comprehensive Income, Shareholders' Equity and Cash Flows for each of the years in the three-year period ended December 31, 2015. We also have audited Cenovus Energy Inc.'s internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Management is responsible for these Consolidated Financial Statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report of Management. Our responsibility is to express an opinion on these Consolidated Financial Statements and an opinion on Cenovus Energy Inc.'s internal control over financial reporting based on our integrated audits.

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

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

In our opinion, the Consolidated Financial Statements referred to above present fairly, in all material respects, the financial position of Cenovus Energy Inc. as of December 31, 2015 and December 31, 2014 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2015 in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board. Also, in our opinion, Cenovus Energy Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control – Integrated Framework (2013) issued by COSO.

(signed) *"PricewaterhouseCoopers LLP"*

PricewaterhouseCoopers LLP
Chartered Professional Accountants
Calgary, Alberta, Canada

February 10, 2016

CONSOLIDATED STATEMENTS OF EARNINGS

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

	Notes	2015	2014	2013
Revenues	1			
Gross Sales		13,207	20,107	18,993
Less: Royalties		143	465	336
		13,064	19,642	18,657
Expenses	1			
Purchased Product		7,374	10,955	10,399
Transportation and Blending		2,043	2,477	2,074
Operating		1,839	2,045	1,782
Production and Mineral Taxes		18	46	35
(Gain) Loss on Risk Management	31	(461)	(662)	293
Depreciation, Depletion and Amortization	9,16	2,114	1,946	1,833
Goodwill Impairment	9	-	497	-
Exploration Expense	9,15	138	86	114
General and Administrative		335	379	365
Finance Costs	5	482	445	529
Interest Income	6	(28)	(33)	(96)
Foreign Exchange (Gain) Loss, Net	7	1,036	411	208
Research Costs		27	15	24
(Gain) Loss on Divestiture of Assets	8	(2,392)	(156)	1
Other (Income) Loss, Net		2	(4)	2
Earnings Before Income Tax		537	1,195	1,094
Income Tax Expense (Recovery)	10	(81)	451	432
Net Earnings		618	744	662
Net Earnings Per Share	11			
Basic		$0.75	$0.98	$0.88
Diluted		$0.75	$0.98	$0.87

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31,
($ millions)

		2015	2014	2013
Net Earnings		618	744	662
Other Comprehensive Income (Loss), Net of Tax	26			
Items That Will Not be Reclassified to Profit or Loss:				
Actuarial Gain (Loss) Relating to Pension and Other Post-Retirement Benefits		20	(18)	14
Items That May be Reclassified to Profit or Loss:				
Change in Value of Available for Sale Financial Assets		6	-	10
Foreign Currency Translation Adjustment		587	215	117
Total Other Comprehensive Income, Net of Tax		613	197	141
Comprehensive Income		1,231	941	803

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

As at December 31,
($ millions)

	Notes	2015	2014
Assets			
Current Assets			
Cash and Cash Equivalents	12	**4,105**	883
Accounts Receivable and Accrued Revenues	13	**1,251**	1,582
Income Tax Receivable		**6**	28
Inventories	14	**810**	1,224
Risk Management	31,32	**301**	478
Current Assets		**6,473**	4,195
Exploration and Evaluation Assets	1,15	**1,575**	1,625
Property, Plant and Equipment, Net	1,16	**17,335**	18,563
Income Tax Receivable		**90**	-
Other Assets	18	**76**	70
Goodwill	1,19	**242**	242
Total Assets		**25,791**	24,695
Liabilities and Shareholders' Equity			
Current Liabilities			
Accounts Payable and Accrued Liabilities	20	**1,702**	2,588
Income Tax Payable		**133**	357
Risk Management	31,32	**23**	12
Current Liabilities		**1,858**	2,957
Long-Term Debt	21	**6,525**	5,458
Risk Management	31,32	**7**	4
Decommissioning Liabilities	22	**2,052**	2,616
Other Liabilities	23	**142**	172
Deferred Income Taxes	10	**2,816**	3,302
Total Liabilities		**13,400**	14,509
Shareholders' Equity		**12,391**	10,186
Total Liabilities and Shareholders' Equity		**25,791**	24,695
Commitments and Contingencies	34		

See accompanying Notes to Consolidated Financial Statements.

Approved by the Board of Directors

(signed) *"Michael A. Grandin"*

Michael A. Grandin
Director
Cenovus Energy Inc.

(signed) *"Colin Taylor"*

Colin Taylor
Director
Cenovus Energy Inc.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

($ millions)

	Share Capital (Note 25)	Paid in Surplus (Note 25)	Retained Earnings	AOCI [1] (Note 26)	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
Net Earnings	-	-	618	-	618
Other Comprehensive Income (Loss)	-	-	-	613	613
Total Comprehensive Income (Loss)	-	-	618	613	1,231
Common Shares Issued for Cash	1,463	-	-	-	1,463
Common Shares Issued Pursuant to Dividend Reinvestment Plan	182	-	-	-	182
Common Shares Issued Under Stock Option Plans	-	-	-	-	-
Stock-Based Compensation Expense	-	39	-	-	39
Dividends on Common Shares	-	-	(710)	-	(710)
Balance as at December 31, 2015	**5,534**	**4,330**	**1,507**	**1,020**	**12,391**

(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	2015	2014	2013
Operating Activities				
Net Earnings		**618**	744	662
Depreciation, Depletion and Amortization	9,16	**2,114**	1,946	1,833
Goodwill Impairment	9	**-**	497	-
Exploration Expense	9,15	**138**	86	50
Deferred Income Taxes	10	**(655)**	359	244
Unrealized (Gain) Loss on Risk Management	31	**195**	(596)	415
Unrealized Foreign Exchange (Gain) Loss	7	**1,097**	411	40
(Gain) Loss on Divestiture of Assets	8	**(2,392)**	(156)	1
Current Tax on Divestiture of Assets	8	**391**	-	-
Unwinding of Discount on Decommissioning Liabilities	5,22	**126**	120	97
Other		**59**	68	267
Net Change in Other Assets and Liabilities		**(107)**	(135)	(120)
Net Change in Non-Cash Working Capital		**(110)**	182	50
Cash From Operating Activities		**1,474**	3,526	3,539
Investing Activities				
Capital Expenditures – Exploration and Evaluation Assets	15	**(138)**	(279)	(331)
Capital Expenditures – Property, Plant and Equipment	16	**(1,576)**	(2,779)	(2,938)
Acquisition	17	**(84)**	-	-
Proceeds From Divestiture of Assets	8	**3,344**	276	258
Current Tax on Divestiture of Assets	8	**(391)**	-	-
Net Change in Investments and Other		**3**	(1,583)	1,486
Net Change in Non-Cash Working Capital		**(270)**	15	6
Cash From (Used in) Investing Activities		**888**	(4,350)	(1,519)
Net Cash Provided (Used) Before Financing Activities		**2,362**	(824)	2,020
Financing Activities				
Net Issuance (Repayment) of Short-Term Borrowings		**(25)**	(18)	(8)
Issuance of U.S. Unsecured Notes	21	**-**	-	814
Repayment of U.S. Unsecured Notes	21	**-**	-	(825)
Common Shares Issued, Net of Issuance Costs	25	**1,449**	-	-
Common Shares Issued Under Stock Option Plans		**-**	28	28
Dividends Paid on Common Shares	11	**(528)**	(805)	(732)
Other		**(2)**	(2)	(3)
Cash From (Used in) Financing Activities		**894**	(797)	(726)
Foreign Exchange Gain (Loss) on Cash and Cash Equivalents Held in Foreign Currency		**(34)**	52	(2)
Increase (Decrease) in Cash and Cash Equivalents		**3,222**	(1,569)	1,292
Cash and Cash Equivalents, Beginning of Year		**883**	2,452	1,160
Cash and Cash Equivalents, End of Year		**4,105**	883	2,452
Supplementary Cash Flow Information	33			

See accompanying Notes to Consolidated Financial Statements.

1. DESCRIPTION OF BUSINESS AND SEGMENTED DISCLOSURES

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

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

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

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

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

A) Results of Operations – Segment and Operational Information

For the years ended December 31,	Oil Sands 2015	Oil Sands 2014	Oil Sands 2013	Conventional 2015	Conventional 2014	Conventional 2013	Refining and Marketing 2015	Refining and Marketing 2014	Refining and Marketing 2013
Revenues									
Gross Sales	**3,030**	5,036	3,912	**1,709**	3,225	2,980	**8,805**	12,658	12,706
Less: Royalties	**29**	236	132	**114**	229	204	**-**	-	-
	3,001	4,800	3,780	**1,595**	2,996	2,776	**8,805**	12,658	12,706
Expenses									
Purchased Product	**-**	-	-	**-**	-	-	**7,709**	11,767	11,004
Transportation and Blending	**1,815**	2,131	1,749	**230**	346	325	**-**	-	-
Operating	**531**	639	548	**561**	709	701	**754**	703	538
Production and Mineral Taxes	**-**	-	-	**18**	46	35	**-**	-	-
(Gain) Loss on Risk Management	**(404)**	(38)	(37)	**(209)**	(1)	(104)	**(43)**	(27)	19
Operating Cash Flow	**1,059**	2,068	1,520	**995**	1,896	1,819	**385**	215	1,145
Depreciation, Depletion and Amortization	**697**	625	446	**1,148**	1,082	1,170	**191**	156	138
Goodwill Impairment	**-**	-	-	**-**	497	-	**-**	-	-
Exploration Expense	**67**	4	-	**71**	82	114	**-**	-	-
Segment Income (Loss)	**295**	1,439	1,074	**(224)**	235	535	**194**	59	1,007

For the years ended December 31,	Corporate and Eliminations 2015	Corporate and Eliminations 2014	Corporate and Eliminations 2013	Consolidated 2015	Consolidated 2014	Consolidated 2013
Revenues						
Gross Sales	**(337)**	(812)	(605)	**13,207**	20,107	18,993
Less: Royalties	**-**	-	-	**143**	465	336
	(337)	(812)	(605)	**13,064**	19,642	18,657
Expenses						
Purchased Product	**(335)**	(812)	(605)	**7,374**	10,955	10,399
Transportation and Blending	**(2)**	-	-	**2,043**	2,477	2,074
Operating	**(7)**	(6)	(5)	**1,839**	2,045	1,782
Production and Mineral Taxes	**-**	-	-	**18**	46	35
(Gain) Loss on Risk Management	**195**	(596)	415	**(461)**	(662)	293
Depreciation, Depletion and Amortization	**78**	83	79	**2,114**	1,946	1,833
Goodwill Impairment	**-**	-	-	**-**	497	-
Exploration Expense	**-**	-	-	**138**	86	114
Segment Income (Loss)	**(266)**	519	(489)	**(1)**	2,252	2,127
General and Administrative	**335**	379	365	**335**	379	365
Finance Costs	**482**	445	529	**482**	445	529
Interest Income	**(28)**	(33)	(96)	**(28)**	(33)	(96)
Foreign Exchange (Gain) Loss, Net	**1,036**	411	208	**1,036**	411	208
Research Costs	**27**	15	24	**27**	15	24
(Gain) Loss on Divestiture of Assets	**(2,392)**	(156)	1	**(2,392)**	(156)	1
Other (Income) Loss, Net	**2**	(4)	2	**2**	(4)	2
	(538)	1,057	1,033	**(538)**	1,057	1,033
Earnings Before Income Tax				**537**	1,195	1,094
Income Tax Expense (Recovery)				**(81)**	451	432
Net Earnings				**618**	744	662

B) Financial Results by Upstream Product

Crude Oil (1)

For the years ended December 31,	Oil Sands			Conventional			Total		
	2015	2014	2013	**2015**	2014	2013	**2015**	2014	2013
Revenues									
Gross Sales	**3,000**	4,963	3,850	**1,239**	2,456	2,373	**4,239**	7,419	6,223
Less: Royalties	**29**	233	131	**103**	217	196	**132**	450	327
	2,971	4,730	3,719	**1,136**	2,239	2,177	**4,107**	6,969	5,896
Expenses									
Transportation and Blending	**1,814**	2,130	1,748	**213**	326	305	**2,027**	2,456	2,053
Operating	**511**	615	527	**381**	505	489	**892**	1,120	1,016
Production and Mineral Taxes	**-**	-	-	**16**	37	32	**16**	37	32
(Gain) Loss on Risk Management	**(400)**	(38)	(33)	**(157)**	4	(43)	**(557)**	(34)	(76)
Operating Cash Flow	**1,046**	2,023	1,477	**683**	1,367	1,394	**1,729**	3,390	2,871

(1) Includes NGLs.

Natural Gas

For the years ended December 31,	Oil Sands			Conventional			Total		
	2015	2014	2013	**2015**	2014	2013	**2015**	2014	2013
Revenues									
Gross Sales	**22**	67	38	**450**	744	594	**472**	811	632
Less: Royalties	**-**	3	1	**11**	12	8	**11**	15	9
	22	64	37	**439**	732	586	**461**	796	623
Expenses									
Transportation and Blending	**1**	1	1	**17**	20	20	**18**	21	21
Operating	**15**	17	18	**175**	198	208	**190**	215	226
Production and Mineral Taxes	**-**	-	-	**2**	9	3	**2**	9	3
(Gain) Loss on Risk Management	**(4)**	-	(4)	**(52)**	(5)	(61)	**(56)**	(5)	(65)
Operating Cash Flow	**10**	46	22	**297**	510	416	**307**	556	438

Other

For the years ended December 31,	Oil Sands			Conventional			Total		
	2015	2014	2013	**2015**	2014	2013	**2015**	2014	2013
Revenues									
Gross Sales	**8**	6	24	**20**	25	13	**28**	31	37
Less: Royalties	**-**	-	-	**-**	-	-	**-**	-	-
	8	6	24	**20**	25	13	**28**	31	37
Expenses									
Transportation and Blending	**-**	-	-	**-**	-	-	**-**	-	-
Operating	**5**	7	3	**5**	6	4	**10**	13	7
Production and Mineral Taxes	**-**	-	-	**-**	-	-	**-**	-	-
(Gain) Loss on Risk Management	**-**	-	-	**-**	-	-	**-**	-	-
Operating Cash Flow	**3**	(1)	21	**15**	19	9	**18**	18	30

Total Upstream

For the years ended December 31,	Oil Sands			Conventional			Total		
	2015	2014	2013	**2015**	2014	2013	**2015**	2014	2013
Revenues									
Gross Sales	**3,030**	5,036	3,912	**1,709**	3,225	2,980	**4,739**	8,261	6,892
Less: Royalties	**29**	236	132	**114**	229	204	**143**	465	336
	3,001	4,800	3,780	**1,595**	2,996	2,776	**4,596**	7,796	6,556
Expenses									
Transportation and Blending	**1,815**	2,131	1,749	**230**	346	325	**2,045**	2,477	2,074
Operating	**531**	639	548	**561**	709	701	**1,092**	1,348	1,249
Production and Mineral Taxes	**-**	-	-	**18**	46	35	**18**	46	35
(Gain) Loss on Risk Management	**(404)**	(38)	(37)	**(209)**	(1)	(104)	**(613)**	(39)	(141)
Operating Cash Flow	**1,059**	2,068	1,520	**995**	1,896	1,819	**2,054**	3,964	3,339

C) Geographic Information

	Canada			United States			Consolidated		
For the years ended December 31,	**2015**	2014	2013	**2015**	2014	2013	**2015**	2014	2013
Revenues									
Gross Sales	**6,407**	10,604	8,943	**6,800**	9,503	10,050	**13,207**	20,107	18,993
Less: Royalties	**143**	465	336	**-**	-	-	**143**	465	336
	6,264	10,139	8,607	**6,800**	9,503	10,050	**13,064**	19,642	18,657
Expenses									
Purchased Product	**1,607**	2,310	2,022	**5,767**	8,645	8,377	**7,374**	10,955	10,399
Transportation and Blending	**2,043**	2,477	2,074	**-**	-	-	**2,043**	2,477	2,074
Operating	**1,129**	1,367	1,260	**710**	678	522	**1,839**	2,045	1,782
Production and Mineral Taxes	**18**	46	35	**-**	-	-	**18**	46	35
(Gain) Loss on Risk Management	**(435)**	(625)	275	**(26)**	(37)	18	**(461)**	(662)	293
Depreciation, Depletion and Amortization	**1,925**	1,790	1,695	**189**	156	138	**2,114**	1,946	1,833
Goodwill Impairment	**-**	497	-	**-**	-	-	**-**	497	-
Exploration Expense	**138**	86	114	**-**	-	-	**138**	86	114
Segment Income (Loss)	**(161)**	2,191	1,132	**160**	61	995	**(1)**	2,252	2,127

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 $870 million (2014 – $821 million; 2013 – $926 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, 2015, Cenovus had three customers (2014 – three; 2013 – three) that individually accounted for more than 10 percent of its consolidated gross sales. Sales to these customers, recognized as major international energy companies with investment grade credit ratings, were approximately $4,647 million, $1,705 million and $1,545 million, respectively (2014 – $7,210 million, $2,668 million and $2,316 million; 2013 – $7,032 million, $2,711 million and $1,799 million), which are included in all of the Company's segments.

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

By Segment

	E&E [1]		PP&E [2]		Goodwill		Total Assets	
As at December 31,	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014
Oil Sands	**1,560**	1,540	**8,907**	8,606	**242**	242	**11,069**	11,024
Conventional	**15**	85	**3,720**	6,038	**-**	-	**3,830**	6,211
Refining and Marketing	**-**	-	**4,398**	3,568	**-**	-	**5,844**	5,520
Corporate and Eliminations	**-**	-	**310**	351	**-**	-	**5,048**	1,940
Consolidated	**1,575**	1,625	**17,335**	18,563	**242**	242	**25,791**	24,695

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

By Geographic Region

	E&E		PP&E		Goodwill		Total Assets	
As at December 31,	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014
Canada	**1,575**	1,625	**13,028**	14,999	**242**	242	**20,627**	20,231
United States	**-**	-	**4,307**	3,564	**-**	-	**5,164**	4,464
Consolidated	**1,575**	1,625	**17,335**	18,563	**242**	242	**25,791**	24,695

E) Capital Expenditures [(1)]

For the years ended December 31,	**2015**	2014	2013
Capital			
Oil Sands	**1,185**	1,986	1,885
Conventional	**244**	840	1,189
Refining and Marketing	**248**	163	107
Corporate	**37**	62	81
	1,714	3,051	3,262
Acquisition Capital			
Oil Sands	**3**	15	27
Conventional	**1**	3	5
Refining and Marketing	**83**	-	-
	1,801	3,069	3,294

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

2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

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

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

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

These Consolidated Financial Statements of Cenovus were approved by the Board of Directors on February 10, 2016.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A) Principles of Consolidation

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

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

B) Foreign Currency Translation

Functional and Presentation Currency

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

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

Transactions and Balances

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

C) Revenue Recognition

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

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

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

D) Transportation and Blending

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

E) Exploration Expense

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

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

F) Employee Benefit Plans

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

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

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

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

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

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

G) Income Taxes

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

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

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

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

H) Net Earnings per Share Amounts

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

I) Cash and Cash Equivalents

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

J) Inventories

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

K) Exploration and Evaluation Assets

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

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

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

L) Property, Plant and Equipment

General

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

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

Development and Production Assets

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

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

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

Other Upstream Assets

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

Refining Assets

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

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

Land Improvements and Buildings	25 to 40 years
Office Equipment and Vehicles	3 to 20 years
Refining Equipment	5 to 35 years

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

Other Assets

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

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

M) Impairment

Non-Financial Assets

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

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

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

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

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

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

Financial Assets

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

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

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

N) Leases

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

Leases where the Company assumes substantially all the risks and rewards of ownership are classified as finance leases within PP&E.

O) Business Combinations and Goodwill

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

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

P) Provisions

General

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

Decommissioning Liabilities

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

Actual expenditures incurred are charged against the accumulated liability.

Q) Share Capital

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

R) Stock-Based Compensation

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

Net Settlement Rights

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

Tandem Stock Appreciation Rights

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

Performance, Restricted and Deferred Share Units

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

S) Financial Instruments

The Company's financial assets include cash and cash equivalents, accounts receivable and accrued revenues, risk management assets, available for sale financial assets and long-term receivables. The Company's financial liabilities include accounts payable and accrued liabilities, risk management liabilities, short-term borrowings and long-term debt.

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

Financial instruments are classified as either "fair value through profit and loss", "loans and receivables", "held-to-maturity investments", "available for sale financial assets" or "financial liabilities measured at amortized cost". The Company determines the classification of its financial 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.

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

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

Fair Value through Profit or Loss

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

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

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

Loans and Receivables

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

Available for Sale Financial Assets

"Available for sale financial assets" are measured at fair value, with changes in 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. Available for sale financial assets comprise investments in the equity of private companies that the Company does not control or have significant influence over.

Financial Liabilities Measured at Amortized Cost

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

T) Reclassification

Certain information provided for prior years has been reclassified to conform to the presentation adopted in 2015. Employee stock-based compensation costs previously included in operating expense have been reclassified to general and administrative expense. As a result, for the years ended December 31, 2014 and 2013, expenses of $21 million and $16 million, respectively, were reclassified.

U) Recent Accounting Pronouncements

New and Amended Accounting Standards and Interpretations Adopted

There were no new or amended accounting standards or interpretations adopted during the year ended December 31, 2015.

New Accounting Standards and Interpretations not yet Adopted

A number of new accounting standards, amendments to accounting standards and interpretations are effective for annual periods beginning on or after January 1, 2016 and have not been applied in preparing the Consolidated Financial Statements for the year ended December 31, 2015. The standards applicable to the Company are as follows and will be adopted on their respective effective dates:

Leases

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

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

IFRS 16 is effective for years beginning on or after January 1, 2019, with early adoption permitted if IFRS 15 "*Revenue From Contracts With Customers*" has been adopted. The standard may be applied retrospectively or using a modified retrospective approach. The Company is currently evaluating the impact of adopting IFRS 16 on the Consolidated Financial Statements.

Revenue Recognition

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

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

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. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

A) Critical Judgments in Applying Accounting Policies

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

Joint Arrangements

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

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

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

- The intention of the transaction creating FCCL and WRB was to form an integrated North American heavy oil business. The integrated business was structured, initially on a tax neutral basis, through two partnerships due to the assets residing in different tax jurisdictions. Partnerships are "flow-through" entities which have a limited life.
- The partnership agreements require the partners (Cenovus and ConocoPhillips or Phillips 66 or respective subsidiaries) to make contributions if funds are insufficient to meet the obligations or liabilities of the 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.
- Cenovus and Phillips 66, as operators, either directly or through wholly-owned subsidiaries, provide marketing services, purchase necessary feedstock, and arrange for transportation and storage on the partners' behalf as the agreements prohibit the partnerships from undertaking these roles themselves. In addition, the partnerships do not have employees and, as such, are not capable of performing these roles.
- In each arrangement, output is taken by one of the partners, indicating that the partners have rights to the economic benefits of the assets and the obligation for funding the liabilities of the arrangements.

Exploration and Evaluation Assets

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

Identification of CGUs

CGUs are defined as the lowest level of integrated assets for which there are separately identifiable cash flows that are largely independent of cash flows from other assets or groups of assets. The classification of assets and allocation of corporate assets into CGUs requires significant judgment and 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, crude-by-rail and corporate assets are assessed at the CGU level. As such, the determination of a CGU could have a significant impact on impairment losses.

B) Key Sources of Estimation Uncertainty

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

Crude Oil and Natural Gas Reserves

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

Impairment of Assets

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

Decommissioning Costs

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

Income Tax Provisions

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

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

5. FINANCE COSTS

For the years ended December 31,	2015	2014	2013
Interest Expense – Short-Term Borrowings and Long-Term Debt	328	285	271
Premium on Redemption of Long-Term Debt	-	-	33
Unwinding of Discount on Decommissioning Liabilities (Note 22)	126	120	97
Other	28	18	30
Interest Expense – Partnership Contribution Payable [1]	-	22	98
	482	445	529

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

6. INTEREST INCOME

For the years ended December 31,	2015	2014	2013
Interest Income – Partnership Contribution Receivable [1]	-	-	(82)
Other	(28)	(33)	(14)
	(28)	(33)	(96)

(1) In 2013, Cenovus received the remaining principal and accrued interest due under the Partnership Contribution Receivable.

7. FOREIGN EXCHANGE (GAIN) LOSS, NET

For the years ended December 31,	2015	2014	2013
Unrealized Foreign Exchange (Gain) Loss on Translation of:			
U.S. Dollar Debt Issued From Canada	1,064	458	357
U.S. Dollar Partnership Contribution Receivable Issued From Canada	-	-	(305)
Other	33	(47)	(12)
Unrealized Foreign Exchange (Gain) Loss	1,097	411	40
Realized Foreign Exchange (Gain) Loss	(61)	-	168
	1,036	411	208

8. DIVESTITURES

On July 29, 2015, the Company completed the sale of Heritage Royalty Limited Partnership ("HRP"), a wholly-owned subsidiary, to a third party for gross cash proceeds of $3.3 billion, resulting in a gain of $2.4 billion. HRP is a royalty business consisting of approximately 4.8 million gross acres of royalty interest and mineral fee title lands in Alberta, Saskatchewan and Manitoba. Cenovus entered into lease agreements with HRP on the fee lands from which it currently has working interest production.

In addition, HRP has a Gross Overriding Royalty on production from Cenovus's Pelican Lake and Weyburn assets. These assets and results of operations were reported in the Conventional segment.

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

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

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

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 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.

9. IMPAIRMENTS

A) Cash-Generating Unit Impairments

As indicators of impairment were noted due to the significant decline in forward commodity prices, the Company has tested its upstream CGUs for impairment.

Key Assumptions

As at December 31, 2015, the recoverable amounts of Cenovus's upstream CGUs were determined based on fair value less costs of disposal or an evaluation of comparable asset transactions. Key assumptions in the determination of future cash flows from reserves include crude oil and natural gas prices, costs to develop and the discount rate. All reserves have been evaluated as at December 31, 2015 by independent qualified reserves evaluators.

Crude Oil and Natural Gas Prices

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

	2016	2017	2018	2019	2020	Average Annual % Change to 2026
WTI (US$/barrel) (1)	45.00	53.60	62.40	69.00	73.10	3.8%
WCS (C$/barrel) (2)	46.40	54.40	59.70	66.30	68.20	3.9%
AECO (C$/Mcf) (3) (4)	2.70	3.20	3.55	3.85	3.95	4.0%

(1) West Texas Intermediate ("WTI") crude oil.
(2) Western Canadian Select ("WCS") crude oil blend.
(3) Alberta Energy Company ("AECO") natural gas.
(4) Assumes gas heating value of one million British Thermal Units per thousand cubic feet.

Discount and Inflation Rates

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

2015 Impairments

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

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 forward prices and cost estimates, consistent with Cenovus's independent qualified reserves evaluators (Level 3). Future cash flows were estimated using a two percent inflation rate and discounted using a rate of 10 percent. As at December 31, 2015, the recoverable amount of the Northern Alberta CGU was estimated to be approximately $1.5 billion.

For the purpose of impairment testing, goodwill is allocated to the CGU to which it relates. There were no impairments of goodwill in the year ended December 31, 2015.

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 2015 impairment of the Northern Alberta CGU:

	One Percent Increase in the Discount Rate	Five Percent Decrease in the Forward Price Estimates
Increase to Impairment of PP&E	157	336

2014 Impairments

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

The recoverable amount was determined using 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 forward 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.

2013 Impairments

There were no CGU impairments for the year ended December 31, 2013.

B) Asset Impairments

Exploration and Evaluation Assets

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

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

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.

Property, Plant and Equipment, Net

In addition to the impairments recorded at the CGU level, DD&A expense includes the following asset impairments:

For the years ended December 31,	**2015**	2014	2013
Development and Production (Note 16)	**16**	65	59
	16	65	59

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

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

10. INCOME TAXES

The provision for income taxes is:

For the years ended December 31,	**2015**	2014	2013
Current Tax			
Canada	**586**	94	143
United States	**(12)**	(2)	45
Total Current Tax Expense (Recovery)	**574**	92	188
Deferred Tax Expense (Recovery)	**(655)**	359	244
	(81)	451	432

In 2015, the Company recorded a deferred tax recovery of $415 million arising from an adjustment to the tax basis of the Company's refining assets. The increase in tax basis was a result of the Company's partner recognizing a taxable gain on its interest in WRB which, due to an election filed with the U.S. tax authorities, was added to the tax basis of WRB's assets.

The Alberta government enacted a two percent increase in the corporate income tax rate effective July 1, 2015, increasing the statutory tax rate for the year to 26.1 percent. As a result, the Company's deferred income tax liability increased by $161 million for the year ended December 31, 2015. The Canadian statutory tax rate as at December 31, 2015 was 27.0 percent. The U.S. statutory tax rate has decreased to 38.0 percent from 38.1 percent in 2014 and 38.5 percent in 2013.

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

For the years ended December 31,	**2015**	2014	2013
Earnings Before Income Tax	**537**	1,195	1,094
Canadian Statutory Rate	**26.1%**	25.2%	25.2%
Expected Income Tax	**140**	301	276
Effect of Taxes Resulting From:			
Foreign Tax Rate Differential	**(41)**	(43)	87
Non-Deductible Stock-Based Compensation	**7**	13	10
Non-Taxable Capital Losses	**137**	74	6
Unrecognized Capital Losses Arising From Unrealized Foreign Exchange	**135**	50	25
Adjustments Arising From Prior Year Tax Filings	**(55)**	(16)	(13)
Derecognition (Recognition) of Capital Losses	**(149)**	(9)	15
Recognition of U.S. Tax Basis	**(415)**	-	-
Change in Statutory Rate	**161**	-	-
Foreign Exchange Gains (Losses) not Included in Net Earnings	**-**	(13)	19
Goodwill Impairment	**-**	125	-
Other	**(1)**	(31)	7
Total Tax	**(81)**	451	432
Effective Tax Rate	**(15.1)%**	37.7%	39.5%

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

As at December 31,	**2015**	2014
Net Deferred Income Tax Liabilities		
Deferred Tax Liabilities to be Settled Within 12 Months	**58**	296
Deferred Tax Liabilities to be Settled After More Than 12 Months	**2,758**	3,006
	2,816	3,302

For the purposes of the preceding table, deferred income tax liabilities are shown net of offsetting deferred income tax assets where they 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 may 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**	**Risk Management**	**Other**	**Total**
As at December 31, 2013	3,000	88	2	152	3,242
Charged/(Credited) to Earnings	22	79	119	(111)	109
Charged/(Credited) to OCI	84	-	-	-	84
As at December 31, 2014	3,106	167	121	41	3,435
Charged/(Credited) to Earnings	(246)	(167)	(39)	(24)	(476)
Charged/(Credited) to OCI	192	-	-	-	192
As at December 31, 2015	**3,052**	**-**	**82**	**17**	**3,151**

Deferred Income Tax Assets	Unused Tax Losses	Timing of Partnership Items	Risk Management	Other	Total
As at December 31, 2013	(104)	-	(35)	(241)	(380)
Charged/(Credited) to Earnings	41	-	31	178	250
Charged/(Credited) to OCI	(9)	-	-	6	(3)
As at December 31, 2014	(72)	-	(4)	(57)	(133)
Charged/(Credited) to Earnings	(80)	(36)	(4)	(59)	(179)
Charged/(Credited) to OCI	(20)	-	-	(3)	(23)
As at December 31, 2015	**(172)**	**(36)**	**(8)**	**(119)**	**(335)**

Net Deferred Income Tax Liabilities	Total
Net Deferred Income Tax Liabilities as at December 31, 2013	2,862
Charged/(Credited) to Earnings	359
Charged/(Credited) to OCI	81
Net Deferred Income Tax Liabilities as at December 31, 2014	3,302
Charged/(Credited) to Earnings	(655)
Charged/(Credited) to OCI	169
Net Deferred Income Tax Liabilities as at December 31, 2015	**2,816**

No deferred tax liability has been recognized as at December 31, 2015 on temporary differences associated with investments in subsidiaries and joint arrangements where the Company can control the timing of the reversal of the temporary difference and the reversal is not probable in the foreseeable future. As at December 31, 2015, the Company had temporary differences of $6,692 million (2014 – $6,667 million) in respect of certain of these investments where, on dissolution or sale, a tax liability may exist.

The approximate amounts of tax pools available are:

As at December 31,	2015	2014
Canada	4,882	6,153
United States	2,119	958
	7,001	7,111

As at December 31, 2015, the above tax pools included $13 million (2014 – $8 million) of Canadian non-capital losses and $380 million (2014 – $140 million) of U.S. federal net operating losses. These losses expire no earlier than 2031.

Also included in the December 31, 2015 tax pools are Canadian net capital losses totaling $44 million (2014 – $593 million), which are available for carry forward to reduce future capital gains. Of these losses, $41 million are unrecognized as a deferred income tax asset as at December 31, 2015 (2014 – $559 million). Recognition is dependent on future capital gains. The Company has not recognized $828 million of net capital losses associated with unrealized foreign exchange losses on its U.S. denominated debt.

11. PER SHARE AMOUNTS

A) Net Earnings Per Share

For the years ended December 31,	**2015**	2014	2013
Net Earnings – Basic and Diluted ($ millions)	**618**	744	662
Basic – Weighted Average Number of Shares (millions)	**818.7**	756.9	755.9
Dilutive Effect of Cenovus TSARs	**-**	0.7	1.6
Dilutive Effect of Cenovus NSRs	**-**	-	-
Diluted – Weighted Average Number of Shares	**818.7**	757.6	757.5
Net Earnings Per Share ($)			
Basic	**$0.75**	$0.98	$0.88
Diluted	**$0.75**	$0.98	$0.87

B) Dividends Per Share

For the year ended December 31, 2015, the Company paid dividends of $710 million or $0.8524 per share (2014 – $805 million, $1.0648 per share; 2013 – $732 million, $0.968 per share), including cash dividends of $528 million. For 2014 and 2013, all dividends were paid in cash. The Cenovus Board of Directors declared a first quarter dividend of $0.05 per share, payable on March 31, 2016, to common shareholders of record as of March 15, 2016.

12. CASH AND CASH EQUIVALENTS

As at December 31,	**2015**	2014
Cash	**323**	458
Short-Term Investments	**3,782**	425
	4,105	883

13. ACCOUNTS RECEIVABLE AND ACCRUED REVENUES

As at December 31,	**2015**	2014
Accruals	**1,037**	1,417
Partner Advances	**35**	44
Prepaids and Deposits	**71**	56
Trade	**61**	6
Joint Operations Receivables	**13**	18
Other	**34**	41
	1,251	1,582

14. INVENTORIES

As at December 31,	2015	2014
Product		
Refining and Marketing	**591**	972
Oil Sands	**158**	182
Conventional	**11**	28
Parts and Supplies	**50**	42
	810	1,224

During the year ended December 31, 2015, approximately $10,618 million of produced and purchased inventory was recorded as an expense (2014 – $15,065 million; 2013 – $13,895 million).

As a result of a decline in commodity prices, Cenovus recorded a write-down of its product inventory of $66 million from cost to net realizable value as at December 31, 2015 (2014 – $131 million).

15. EXPLORATION AND EVALUATION ASSETS

COST	
As at December 31, 2013	1,473
Additions	279
Transfers to PP&E (Note 16)	(53)
Exploration Expense (Note 9)	(86)
Divestitures	(2)
Change in Decommissioning Liabilities	14
As at December 31, 2014	1,625
Additions	138
Acquisitions	3
Transfers to PP&E (Note 16)	(49)
Exploration Expense (Note 9)	(138)
Change in Decommissioning Liabilities	(4)
As at December 31, 2015	**1,575**

16. PROPERTY, PLANT AND EQUIPMENT, NET

	Upstream Assets				
	Development & Production	Other Upstream	Refining Equipment	Other [1]	Total
COST					
As at December 31, 2013	29,390	286	3,654	849	34,179
Additions	2,522	43	162	63	2,790
Transfers From E&E Assets (Note 15)	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
Additions	1,289	2	240	45	1,576
Acquisition (Note 17)	1	-	-	83	84
Transfers From E&E Assets (Note 15)	49	-	-	-	49
Change in Decommissioning Liabilities	(635)	-	1	(1)	(635)
Exchange Rate Movements and Other	(1)	-	814	-	813
Divestitures (Note 8)	(923)	-	-	-	(923)
As at December 31, 2015	**31,481**	**331**	**5,206**	**1,037**	**38,055**
ACCUMULATED DEPRECIATION, DEPLETION AND AMORTIZATION					
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 (Note 9)	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
Depreciation, Depletion and Amortization	1,601	44	189	80	1,914
Impairment Losses (Note 9)	200	-	-	-	200
Exchange Rate Movements and Other	(1)	-	123	1	123
Divestitures (Note 8)	(45)	-	-	-	(45)
As at December 31, 2015	**18,908**	**277**	**896**	**639**	**20,720**
CARRYING VALUE					
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
As at December 31, 2015	**12,573**	**54**	**4,310**	**398**	**17,335**

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

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

As at December 31,	2015	2014
Development and Production	**537**	478
Refining Equipment	**265**	159
	802	637

17. ACQUISITION

On August 31, 2015, the Company completed the acquisition of a crude-by-rail terminal for cash consideration of $75 million, plus adjustments. The transaction was accounted for using the acquisition method of accounting. In connection with the acquisition, the Company assumed an associated decommissioning liability of $4 million, working capital of $1 million and net transportation commitments of $92 million. Transaction costs associated with the acquisition have been expensed. These assets and results of operations are reported in the Refining and Marketing segment.

18. OTHER ASSETS

As at December 31,	**2015**	2014
Investments	**46**	36
Long-Term Receivables	**1**	7
Prepaids	**7**	7
Other	**22**	20
	76	70

19. GOODWILL

As at December 31,	**2015**	2014
Carrying Value, Beginning of Year	**242**	739
Impairment Losses (Note 9)	**-**	(497)
Carrying Value, End of Year	**242**	242

All of the Company's goodwill arose in 2002 upon the formation of the predecessor corporation. As at December 31, 2015 and 2014, the carrying amount of goodwill was associated with the Company's Primrose (Foster Creek) CGU.

20. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As at December 31,	**2015**	2014
Accruals	**1,366**	2,057
Partner Advances	**35**	218
Trade	**68**	51
Employee Long-Term Incentives	**47**	91
Interest	**73**	61
Other	**113**	110
	1,702	2,588

21. LONG-TERM DEBT

As at December 31,		**2015**	2014
Revolving Term Debt (1)	A	**-**	-
U.S. Dollar Denominated Unsecured Notes	B	**6,574**	5,510
Total Debt Principal	C	**6,574**	5,510
Debt Discounts and Transaction Costs	D	**(49)**	(52)
		6,525	5,458

(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, 2015 was 5.3 percent (2014 – 5.0 percent).

A) Revolving Term Debt

As at December 31, 2015, Cenovus had in place a committed credit facility in the amount of $4.0 billion or the equivalent amount in U.S. dollars. During the second quarter of 2015, Cenovus renegotiated its existing $3.0 billion committed credit facility, extending the maturity date to November 30, 2019. In addition, a new $1.0 billion tranche was established under the same facility, maturing on November 30, 2017. The maturity dates are extendable from time to time, at the option of Cenovus and upon agreement from the lenders. Borrowings are available by way of Bankers' Acceptances, LIBOR based loans, prime rate loans or U.S. base rate loans. As at December 31, 2015, there were no amounts drawn on Cenovus's committed bank credit facility (December 31, 2014 – $nil).

B) Unsecured Notes

Unsecured notes are composed of:

As at December 31,	US$ Principal Amount	**2015**	2014
5.70% due October 15, 2019	1,300	**1,799**	1,508
3.00% due August 15, 2022	500	**692**	580
3.80% due September 15, 2023	450	**623**	522
6.75% due November 15, 2039	1,400	**1,938**	1,624
4.45% due September 15, 2042	750	**1,038**	870
5.20% due September 15, 2043	350	**484**	406
		6,574	5,510

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, 2015, 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, 2015, no medium term notes have been issued under this Canadian base shelf prospectus. The Canadian base shelf prospectus expires in July 2016.

As at December 31, 2015, the Company is in compliance with all of the terms of its debt agreements.

C) Mandatory Debt Payments

	US$ Principal Amount	C$ Principal Amount	**Total C$ Equivalent**
2016	-	-	**-**
2017	-	-	**-**
2018	-	-	**-**
2019	1,300	-	**1,799**
2020	-	-	**-**
Thereafter	3,450	-	**4,775**
	4,750	-	**6,574**

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 2015, additional transaction costs of $3 million were recorded (2014 – $2 million).

22. DECOMMISSIONING LIABILITIES

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

As at December 31,	2015	2014
Decommissioning Liabilities, Beginning of Year	**2,616**	2,370
Liabilities Incurred	**10**	48
Liabilities Acquired	**4**	-
Liabilities Settled	**(62)**	(93)
Liabilities Divested	**-**	(60)
Transfers and Reclassifications	**-**	(9)
Change in Estimated Future Cash Flows	**(70)**	115
Change in Discount Rate	**(579)**	122
Unwinding of Discount on Decommissioning Liabilities	**126**	120
Foreign Currency Translation	**7**	3
Decommissioning Liabilities, End of Year	**2,052**	2,616

The undiscounted amount of estimated future cash flows required to settle the obligation is $6,665 million (December 31, 2014 – $8,333 million), which has been discounted using a credit-adjusted risk-free rate of 6.4 percent (December 31, 2014 – 4.9 percent). An inflation rate of two percent (2014 – two percent) was used to calculate the decommissioning provision. Most of these obligations are not expected to be paid for several years, or decades, and are expected to be funded from general resources at that time. The Company expects to settle approximately $35 million to $70 million of decommissioning liabilities over the next year. Revisions in estimated future cash flows resulted from lower cost estimates, partially offset by accelerated timing of decommissioning liabilities over the estimated life of the reserves.

Sensitivities

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

	2015		2014	
As at December 31,	**Credit-Adjusted Risk-Free Rate**	**Inflation Rate**	Credit-Adjusted Risk-Free Rate	Inflation Rate
One Percent Increase	**(247)**	**319**	(419)	574
One Percent Decrease	**308**	**(259)**	562	(433)

23. OTHER LIABILITIES

As at December 31,	2015	2014
Employee Long-Term Incentives	**40**	57
Pension and OPEB (Note 24)	**66**	84
Other	**36**	31
	142	172

24. PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS

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

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

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

A) Defined Benefit and OPEB Plan Obligation and Funded Status

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

	Pension Benefits		OPEB	
As at December 31,	2015	2014	2015	2014
Defined Benefit Obligation				
Defined Benefit Obligation, Beginning of Year	200	148	23	18
Current Service Costs	19	15	3	2
Interest Costs [1]	8	7	1	1
Benefits Paid	(6)	(3)	(1)	-
Plan Participant Contributions	3	3	-	-
Past Service Costs – Curtailments	(5)	-	-	-
Settlements	(20)	-	-	-
Remeasurements:				
(Gains) Losses from Experience Adjustments	(3)	-	-	-
(Gains) Losses from Changes in Demographic Assumptions	-	(1)	-	-
(Gains) Losses from Changes in Financial Assumptions	(28)	31	-	2
Defined Benefit Obligation, End of Year	168	200	26	23
Plan Assets				
Fair Value of Plan Assets, Beginning of Year	139	115	-	-
Employer Contributions	16	12	-	-
Plan Participant Contributions	3	3	-	-
Benefits Paid	(6)	(3)	-	-
Settlements	(23)	-	-	-
Interest Income [1]	2	4	-	-
Remeasurements:				
Return on Plan Assets (Excluding Interest Income)	(3)	8	-	-
Fair Value of Plan Assets, End of Year	128	139	-	-
Pension and Other Post-Employment Benefit (Liability) [2]	(40)	(61)	(26)	(23)

(1) Based on the discount rate of the defined benefit obligation at the beginning of the year.
(2) Pension and OPEB liabilities are included in other liabilities on the Consolidated Balance Sheets.

The weighted average duration of the defined benefit pension and OPEB obligations are 15 years and 12 years, respectively.

B) Pension and OPEB Costs

For the years ended December 31,	Pension Benefits			OPEB		
	2015	2014	2013	**2015**	2014	2013
Defined Benefit Plan Cost						
Current Service Costs	**19**	15	17	**3**	2	2
Past Service Costs – Curtailments	**(5)**	-	-	**-**	-	-
Net Settlement Costs	**3**	-	-	**-**	-	-
Net Interest Costs	**6**	3	4	**1**	1	1
Remeasurements:						
Return on Plan Assets (Excluding Interest Income)	**3**	(8)	(7)	**-**	-	-
(Gains) Losses from Experience Adjustments	**(3)**	-	1	**-**	-	-
(Gains) Losses from Changes in Demographic Assumptions	**-**	(1)	12	**-**	-	(1)
(Gains) Losses from Changes in Financial Assumptions	**(28)**	31	(19)	**-**	2	(4)
Defined Benefit Plan Cost (Gain)	**(5)**	40	8	**4**	5	(2)
Defined Contribution Plan Cost	**29**	30	27	**-**	-	-
Total Plan Cost	**24**	70	35	**4**	5	(2)

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 60 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,	**2015**	2014
Equity Securities		
Equity Funds and Balanced Funds	**73**	75
Other	**3**	9
Bond Funds	**31**	36
Non-Invested Assets	**17**	15
Real Estate	**4**	4
	128	139

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.

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 December 31, 2014, 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, 2016 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:

	Pension Benefits			OPEB		
For the years ended December 31,	**2015**	2014	2013	**2015**	2014	2013
Discount Rate	**4.00%**	3.75%	4.75%	**3.75%**	3.75%	4.75%
Future Salary Growth Rate	**3.80%**	4.32%	4.39%	**5.15%**	5.65%	5.65%
Average Longevity (Years)	**88.3**	88.3	88.5	**88.3**	88.3	88.5
Health Care Cost Trend Rate	**N/A**	N/A	N/A	**7.00%**	7.00%	7.00%

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

Sensitivities

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

	2015		2014	
As at December 31,	**One Percentage Point Increase**	**One Percentage Point Decrease**	One Percentage Point Increase	One Percentage Point Decrease
Discount Rate	**(27)**	**35**	(34)	43
Future Salary Growth Rate	**3**	**(3)**	4	(4)
Health Care Cost Trend Rate	**2**	**(2)**	2	(2)
Future Mortality Rate (Years)	**4**	**(4)**	4	(4)

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

F) Risks

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

Longevity Risk

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

Interest Rate Risk

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

Investment Risk

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

Salary Risk

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

25. SHARE CAPITAL

A) Authorized

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

B) Issued and Outstanding

	2015		2014	
As at December 31,	**Number of Common Shares** (Thousands)	**Amount**	Number of Common Shares (Thousands)	Amount
Outstanding, Beginning of Year	**757,103**	**3,889**	756,046	3,857
Common Shares Issued, Net of Issuance Costs	**67,500**	**1,463**	-	-
Common Shares Issued Pursuant to Dividend Reinvestment Plan	**8,687**	**182**	-	-
Common Shares Issued Under Stock Option Plans	**-**	**-**	1,057	32
Outstanding, End of Year	**833,290**	**5,534**	757,103	3,889

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

The Company has a DRIP, whereby holders of common shares may reinvest all or a portion of the cash dividends payable on their common shares in additional common shares. At the discretion of the Company, the additional common shares may be issued from treasury of the Company or purchased on the market. During the year ended December 31, 2015, the Company issued 8.7 million common shares from treasury under the DRIP.

There were no preferred shares outstanding as at December 31, 2015 (2014 – nil).

As at December 31, 2015, there were 12 million (2014 – 13 million) common shares available for future issuance under the stock option plan.

C) Paid in Surplus

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

	Pre-Arrangement Earnings	Stock-Based Compensation	Total
As at December 31, 2013	4,086	133	4,219
Stock-Based Compensation Expense	-	72	72
As at December 31, 2014	4,086	205	4,291
Stock-Based Compensation Expense	-	39	39
As at December 31, 2015	**4,086**	**244**	**4,330**

26. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

	Defined Benefit Plan	Foreign Currency Translation	Available for Sale Financial Assets	Total
As at December 31, 2013	(12)	212	10	210
Other Comprehensive Income (Loss), Before Tax	(24)	215	-	191
Income Tax	6	-	-	6
As at December 31, 2014	(30)	427	10	407
Other Comprehensive Income (Loss), Before Tax	28	587	8	623
Income Tax	(8)	-	(2)	(10)
As at December 31, 2015	**(10)**	**1,014**	**16**	**1,020**

27. STOCK-BASED COMPENSATION PLANS

A) Employee Stock Option Plan

Cenovus has an Employee Stock Option Plan that provides employees with the opportunity to exercise an option to purchase a common share of the Company. Option exercise prices approximate the market price for the common shares on the date the options were issued. Options granted are exercisable at 30 percent of the number granted after one year, an additional 30 percent of the number granted after two years and are fully exercisable after three years. Options expire after seven years.

Options issued by the Company 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.

NSRs

The weighted average unit fair value of NSRs granted during the year ended December 31, 2015 was $3.58 before considering forfeitures, which are considered in determining total cost for the period. The fair value of each NSR was estimated on its grant date using the Black-Scholes-Merton valuation model with weighted average assumptions as follows:

Risk-Free Interest Rate	0.75%
Expected Dividend Yield	3.60%
Expected Volatility [(1)]	28.27%
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, 2015	Number of NSRs (Thousands)	Weighted Average Exercise Price ($)
Outstanding, Beginning of Year	40,549	32.63
Granted	4,106	22.25
Exercised	-	-
Forfeited	(2,541)	32.19
Outstanding, End of Year	42,114	31.65
Exercisable, End of Year	23,484	34.46

	Outstanding NSRs		
As at December 31, 2015 Range of Exercise Price ($)	Number of NSRs (Thousands)	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price ($)
15.00 to 19.99	6	6.68	18.07
20.00 to 24.99	4,075	6.15	22.26
25.00 to 29.99	14,281	5.14	28.39
30.00 to 34.99	12,642	4.18	32.61
35.00 to 39.99	11,110	2.79	38.19
	42,114	4.33	31.65

	Exercisable NSRs	
As at December 31, 2015 Range of Exercise Price ($)	Number of NSRs (Thousands)	Weighted Average Exercise Price ($)
15.00 to 19.99	-	-
20.00 to 24.99	40	22.99
25.00 to 29.99	4,404	28.41
30.00 to 34.99	7,930	32.64
35.00 to 39.99	11,110	38.19
	23,484	34.46

TSARs

The Company has recorded a liability of $1 million as at December 31, 2015 (December 31, 2014 – $8 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	**0.75%**
Expected Dividend Yield	**4.14%**
Expected Volatility [1]	**29.24%**
Cenovus's Common Share Price	**$17.50**

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

The intrinsic value of vested TSARs held by Cenovus employees as at December 31, 2015 was $nil (December 31, 2014 – $nil).

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

As at December 31, 2015	**Number of TSARs** (Thousands)	**Weighted Average Exercise Price** ($)
Outstanding, Beginning of Year	**3,862**	**26.72**
Exercised for Cash Payment	**-**	**-**
Exercised as Options for Common Shares	**-**	**-**
Forfeited	**(144)**	**27.06**
Expired	**(73)**	**25.89**
Outstanding, End of Year	**3,645**	**26.72**
Exercisable, End of Year	**3,645**	**26.72**

	Outstanding and Exercisable TSARs		
As at December 31, 2015 Range of Exercise Price ($)	**Number of TSARs** (Thousands)	**Weighted Average Remaining Contractual Life** (Years)	**Weighted Average Exercise Price** ($)
20.00 to 29.99	**3,497**	**1.16**	**26.46**
30.00 to 39.99	**148**	**1.98**	**32.88**
	3,645	**1.20**	**26.72**

The closing price of Cenovus's common shares on the TSX as at December 31, 2015 was $17.50.

B) Performance Share Units

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

The Company has recorded a liability of $49 million as at December 31, 2015 (2014 – $109 million) in the Consolidated Balance Sheets for PSUs based on the market value of Cenovus's common shares as at December 31, 2015. As PSUs are paid out upon vesting, the intrinsic value of vested PSUs was $nil as at December 31, 2015 and 2014.

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

As at December 31, 2015	Number of PSUs (Thousands)
Outstanding, Beginning of Year	7,099
Granted	2,909
Vested and Paid Out	(2,176)
Cancelled	(1,681)
Units in Lieu of Dividends	276
Outstanding, End of Year	**6,427**

C) Restricted Share Units

Cenovus has granted RSUs to certain employees under its Restricted Share Unit Plan for Employees. RSUs are whole-share units and entitle employees to receive, upon vesting, either a common share of Cenovus or a cash payment equal to the value of a Cenovus common share. RSUs vest after three years.

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

The Company has recorded a liability of $11 million as at December 31, 2015 (2014 – $1 million) in the Consolidated Balance Sheets for RSUs based on the market value of Cenovus's common shares as at December 31, 2015. As RSUs are paid out upon vesting, the intrinsic value of vested RSUs was $nil as at December 31, 2015 and 2014.

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

As at December 31, 2015	Number of RSUs (Thousands)
Outstanding, Beginning of Year	93
Granted	2,345
Vested and Paid Out	(22)
Cancelled	(251)
Units in Lieu of Dividends	102
Outstanding, End of Year	**2,267**

D) Deferred Share Units

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 $26 million as at December 31, 2015 (2014 – $31 million) in the Consolidated Balance Sheets for DSUs based on the market value of Cenovus's common shares as at December 31, 2015. 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, 2015	Number of DSUs (Thousands)
Outstanding, Beginning of Year	1,297
Granted to Directors	68
Granted	68
Units in Lieu of Dividends	60
Redeemed	(5)
Outstanding, End of Year	**1,488**

E) Total Stock-Based Compensation

For the years ended December 31,	2015	2014	2013
NSRs	27	41	35
TSARs	(5)	(10)	(16)
PSUs	(13)	34	32
RSUs	6	-	-
DSUs	(5)	(5)	-
Stock-Based Compensation Expense (Recovery)	10	60	51
Stock-Based Compensation Costs Capitalized	6	29	18
Total Stock-Based Compensation	16	89	69

28. EMPLOYEE SALARIES AND BENEFIT EXPENSES

For the years ended December 31,	2015	2014	2013
Salaries, Bonuses and Other Short-Term Employee Benefits	534	550	494
Defined Contribution Pension Plan	19	18	17
Defined Benefit Pension Plan and OPEB	17	14	15
Stock-Based Compensation Expense (Note 27)	10	60	51
Termination Benefits	43	-	-
	623	642	577

29. RELATED PARTY TRANSACTIONS

Key Management Compensation

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

For the years ended December 31,	2015	2014	2013
Salaries, Director Fees and Short-Term Benefits	30	29	31
Post-Employment Benefits	5	4	4
Stock-Based Compensation	5	20	24
	40	53	59

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

30. CAPITAL STRUCTURE

Cenovus's capital structure objectives and targets have remained unchanged from previous periods. Cenovus's capital structure consists of Shareholders' Equity plus Debt. Debt is defined as short-term borrowings and the current and long-term portions of long-term debt. Net debt includes the Company's short-term borrowings, current and long-term portions of long-term debt, and the current and long-term portions of the Partnership Contribution Payable, net of cash and cash equivalents. Cenovus's objectives when managing its capital structure are to maintain financial flexibility, preserve access to capital markets, ensure its ability to finance internally generated growth and to fund potential acquisitions while maintaining the ability to meet the Company's financial obligations as they come due.

Cenovus monitors its capital structure and financing requirements using, among other things, non-GAAP financial metrics consisting of Debt to Capitalization and Debt to Adjusted Earnings Before Interest, Taxes and DD&A ("Adjusted EBITDA"). These metrics are used to steward Cenovus's overall debt position as measures of Cenovus's overall financial strength.

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

A) Debt to Capitalization and Net Debt to Capitalization

As at December 31,	2015	2014	2013
Debt	6,525	5,458	4,997
Add (Deduct):			
Cash and Cash Equivalents	(4,105)	(883)	(2,452)
Current Portion of Partnership Contribution Payable [1]	-	-	438
Partnership Contribution Payable [1]	-	-	1,087
Net Debt	2,420	4,575	4,070
Debt	6,525	5,458	4,997
Shareholders' Equity	12,391	10,186	9,946
	18,916	15,644	14,943
Debt to Capitalization	34%	35%	33%
Net Debt	2,420	4,575	4,070
Shareholders' Equity	12,391	10,186	9,946
	14,811	14,761	14,016
Net Debt to Capitalization	16%	31%	29%

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

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

As at December 31,	2015	2014	2013
Debt	**6,525**	5,458	4,997
Net Debt	**2,420**	4,575	4,070
Net Earnings	**618**	744	662
Add (Deduct):			
Finance Costs	**482**	445	529
Interest Income	**(28)**	(33)	(96)
Income Tax Expense (Recovery)	**(81)**	451	432
Depreciation, Depletion and Amortization	**2,114**	1,946	1,833
Goodwill Impairment	**-**	497	-
E&E Impairment	**138**	86	50
Unrealized (Gain) Loss on Risk Management	**195**	(596)	415
Foreign Exchange (Gain) Loss, Net	**1,036**	411	208
(Gain) Loss on Divestitures of Assets	**(2,392)**	(156)	1
Other (Income) Loss, Net	**2**	(4)	2
Adjusted EBITDA	**2,084**	3,791	4,036
Debt to Adjusted EBITDA	**3.1x**	1.4x	1.2x
Net Debt to Adjusted EBITDA	**1.2x**	1.2x	1.0x

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, among other actions, adjust capital and operating spending, adjust dividends paid to shareholders, purchase shares for cancellation pursuant to normal course issuer bids, issue new shares, issue new debt, draw down on its credit facilities or repay existing debt.

As at December 31, 2015, Cenovus had $4.0 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.

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

As at December 31, 2015, Cenovus is in compliance with all of the terms of its debt agreements.

31. 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, risk management assets and liabilities, available for sale financial assets, long-term receivables, short-term borrowings and long-term debt. Risk management assets and liabilities arise from the use of derivative financial instruments.

A) Fair Value of Non-Derivative Financial Instruments

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

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

Long-term debt is carried at amortized cost. The estimated fair values of long-term borrowings have been determined based on period-end trading prices of long-term borrowings on the secondary market (Level 2). As at December 31, 2015, the carrying value of Cenovus's long-term debt was $6,525 million and the fair value was $6,050 million (2014 carrying value – $5,458 million, fair value – $5,726 million).

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

As at December 31,	2015	2014
Fair Value, Beginning of Year	32	32
Acquisition of Investments	2	4
Reclassification of Equity Investments	-	(4)
Change in Fair Value [1]	8	-
Fair Value, End of Year	42	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, condensate, natural gas and power purchase contracts, as well as interest rate swaps. Crude oil, condensate 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, 2015 range from $30.00 to $41.00 per megawatt hour. The fair value of interest rate swaps are calculated using external valuation models which incorporate observable market data, including quoted market prices and interest rate yield curves (Level 2).

Summary of Unrealized Risk Management Positions

	2015			2014		
	Risk Management			Risk Management		
As at December 31,	Asset	Liability	Net	Asset	Liability	Net
Commodity Prices						
Crude Oil	301	15	286	423	7	416
Natural Gas	-	-	-	55	-	55
Power	-	13	(13)	-	9	(9)
	301	28	273	478	16	462
Interest Rate	-	2	(2)	-	-	-
Total Fair Value	301	30	271	478	16	462

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

As at December 31,	2015	2014
Prices Sourced From Observable Data or Market Corroboration (Level 2)	284	471
Prices Determined From Unobservable Inputs (Level 3)	(13)	(9)
	271	462

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

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

As at December 31,	2015	2014
Fair Value of Contracts, Beginning of Year	**462**	(129)
Fair Value of Contracts Realized During the Year [(1)]	**(656)**	(66)
Change in Fair Value of Contracts in Place at Beginning of Year and Contracts Entered Into During the Year [(2)]	**461**	662
Unrealized Foreign Exchange Gain (Loss) on U.S. Dollar Contracts	**4**	(5)
Fair Value of Contracts, End of Year	**271**	462

(1) Includes a realized loss of $10 million related to power contracts (2014 - $4 million gain).
(2) Includes a decrease of $14 million related to power contracts (2014 - $10 million decrease).

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:

	2015			2014		
	Risk Management			Risk Management		
As at December 31,	**Asset**	**Liability**	**Net**	Asset	Liability	Net
Recognized Risk Management Positions						
Gross Amount	**317**	**46**	**271**	479	17	462
Amount Offset	**(16)**	**(16)**	**-**	(1)	(1)	-
Net Amount per Consolidated Financial Statements	**301**	**30**	**271**	478	16	462

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, 2015, $26 million (2014 – $12 million) was pledged as collateral, of which $5 million (2014 – $7 million) could have been withdrawn.

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

For the years ended December 31,	2015	2014	2013
Realized (Gain) Loss [(1)]	**(656)**	(66)	(122)
Unrealized (Gain) Loss [(2)]	**195**	(596)	415
(Gain) Loss on Risk Management	**(461)**	(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.

32. 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 forward commodity prices may have on the fair value or future cash flows of financial assets and liabilities. To partially mitigate exposure to commodity price risk, the Company has entered into various financial derivative instruments.

The use of these derivative instruments is governed under formal policies and is subject to limits established by the Board of Directors. The Company's policy is not to use derivative instruments for speculative purposes.

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

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

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

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 Risk Management Positions

As at December 31, 2015	Notional Volumes	Term	Average Price	Fair Value
Crude Oil Contracts				
Fixed Price Contracts				
Brent Fixed Price	17,000 bbls/d	January – June 2016	$75.80/bbl	**64**
Brent Fixed Price	33,000 bbls/d	January – June 2016	US$47.59/bbl	**65**
Brent Fixed Price	10,000 bbls/d	January – December 2016	US$66.93/bbl	**127**
Brent Fixed Price	5,000 bbls/d	July – December 2016	$75.46/bbl	**13**
WCS Differential [1]	31,600 bbls/d	January – December 2016	US$(13.96)/bbl	**(9)**
Brent Collars	10,000 bbls/d	July – December 2016	US$45.55 – US$56.55/bbl	**11**
Other Financial Positions [2]				**17**
Crude Oil Fair Value Position				**288**
Condensate Purchase Contracts				
Mont Belvieu Fixed Price	3,000 bbls/d	January – December 2016	US$39.20/bbl	**(2)**
Power Purchase Contracts				
Power Fair Value Position				**(13)**
Interest Rate Swaps				**(2)**

(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.

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 or interest rates, with all other variables held constant. Management believes the price and interest rate fluctuations identified in the table below are a reasonable measure of volatility. The impact of fluctuating commodity prices and interest rates on the Company's open risk management positions in place as at December 31, 2015 and 2014 could have resulted in unrealized gains (losses) impacting earnings before income tax as follows:

		2015		2014	
	Sensitivity Range	**Increase**	**Decrease**	Increase	Decrease
Crude Oil Commodity Price	± US$10 per bbl Applied to Brent and WTI Hedges	**(243)**	**245**	(145)	146
Crude Oil Differential Price	± US$5 per bbl Applied to Differential Hedges Tied to Production	**80**	**(80)**	5	(5)
Condensate Commodity Price	± US$10 per bbl Applied to Condensate Hedges	**23**	**(23)**	-	-
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)**	19	(19)
Interest Rate Swaps	± 50 Basis Points	**38**	**(46)**	-	-

B) Foreign Exchange Risk

Foreign exchange risk arises from changes in foreign exchange rates that may affect the fair value or future cash flows of Cenovus's financial assets or liabilities. As Cenovus operates in North America, fluctuations in the exchange rate between the U.S./Canadian dollar can have a significant effect on reported results.

As disclosed in Note 7, Cenovus's foreign exchange (gain) loss primarily includes unrealized foreign exchange gains and losses on the translation of the U.S. dollar debt issued from Canada and the translation of the U.S. dollar Partnership Contribution Receivable issued from Canada. As at December 31, 2015, Cenovus had US$4,750 million in U.S. dollar debt issued from Canada (2014 – US$4,750 million) and US$nil related to the U.S. dollar Partnership Contribution Receivable (2014 – US$nil). In respect of these financial instruments, the impact of changes in the U.S. to Canadian dollar exchange rate would have resulted in a change to foreign exchange (gain) loss as follows:

For the years ended December 31,	2015	2014	2013
$0.01 Increase in the U.S. to Canadian Dollar Exchange Rate	48	48	48
$0.01 Decrease in the U.S. to Canadian Dollar Exchange Rate	(48)	(48)	(48)

C) Interest Rate Risk

Interest rate risk arises from changes in market interest rates that may affect earnings, cash flows and valuations. Cenovus has the flexibility to partially mitigate its exposure to interest rate changes by maintaining a mix of both fixed and floating rate debt. In addition, to manage the Company's exposure to interest rate volatility, the Company may periodically enter into interest rate swap contracts related to future debt issuances. As at December 31, 2015, the Company had a notional amount of US$300 million in forward swaps.

As at December 31, 2015, the increase or decrease in net earnings for a one percentage point change in interest rates on floating rate debt amounts to $nil (2014 – $nil, 2013 – $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 the credit policy 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. As at December 31, 2015 and 2014, substantially all of the Company's accounts receivable were less than 60 days. As at December 31, 2015, 91 percent (2014 – 91 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.

As at December 31, 2015, Cenovus had one counterparty (2014 – 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, and long-term receivables is the total carrying value.

E) Liquidity Risk

Liquidity risk is the risk that Cenovus will not be able to meet all of its financial obligations as they become due. Liquidity risk also includes the risk of not being able to liquidate assets in a timely manner at a reasonable price. Cenovus manages its liquidity risk through the active management of cash and debt and by maintaining appropriate access to credit, which may be impacted by the Company's credit ratings. As disclosed in Note 30, over the long term, Cenovus targets a Debt to Capitalization ratio between 30 and 40 percent and a Debt to Adjusted EBITDA of between 1.0 to 2.0 times to manage the Company's overall debt position.

Cenovus manages its liquidity risk by ensuring that it has access to multiple sources of capital including: cash and cash equivalents, cash from operating activities, undrawn credit facilities and availability under its shelf prospectuses. As at December 31, 2015, Cenovus had $4.1 billion in cash and cash equivalents, and $4.0 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.

Undiscounted cash outflows relating to financial liabilities are:

2015	Less than 1 Year	1-3 Years	4-5 Years	Thereafter	Total
Accounts Payable and Accrued Liabilities	1,702	-	-	-	**1,702**
Risk Management Liabilities [1]	23	5	2	-	**30**
Long-Term Debt [2]	349	2,847	493	8,721	**12,410**
Other [2]	-	3	1	4	**8**

2014	Less than 1 Year	1-3 Years	4-5 Years	Thereafter	Total
Accounts Payable and Accrued Liabilities	2,588	-	-	-	2,588
Risk Management Liabilities [1]	12	4	-	-	16
Long-Term Debt [2]	293	585	2,093	7,724	10,695
Other [2]	-	3	1	4	8

(1) Risk management liabilities subject to master netting agreements.
(2) Principal and interest, including current portion.

33. SUPPLEMENTARY CASH FLOW INFORMATION

For the years ended December 31,	2015	2014	2013
Interest Paid	**330**	335	409
Interest Received	**19**	33	119
Income Taxes Paid	**933**	46	133

34. 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:

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

2014	1 Year	2 Years	3 Years	4 Years	5 Years	Thereafter	Total
Transportation and Storage [1]	522	637	644	823	1,590	23,632	27,848
Operating Leases (Building Leases)	124	122	120	162	160	2,796	3,484
Product Purchases	101	7	-	-	-	-	108
Capital Commitments	90	55	11	2	-	46	204
Other Long-Term Commitments	58	24	21	15	13	116	247
Total Payments [2]	895	845	796	1,002	1,763	26,590	31,891
Fixed Price Product Sales	54	55	3	-	-	-	112

(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.

In 2015, net transportation commitments of $92 million were assumed upon the acquisition of the Company's crude-by-rail terminal.

As at December 31, 2015, there were outstanding letters of credit aggregating $64 million issued as security for performance under certain contracts (2014 – $74 million).

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

B) Contingencies

Legal Proceedings

Cenovus is involved in a limited number of legal claims associated with the normal course of operations. Cenovus believes 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 recorded a liability of $2,052 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.