



## **Cenovus Energy Inc.**

Interim Consolidated Financial Statements (unaudited)

For the Period Ended December 31, 2017

(Canadian Dollars)

# CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

For the period ended December 31, 2017

## TABLE OF CONTENTS

---

|  |    |
|--|----|
| CONSOLIDATED STATEMENTS OF EARNINGS (LOSS) (UNAUDITED) .....             | 3  |
| CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED) ..... | 4  |
| CONSOLIDATED BALANCE SHEETS (UNAUDITED) .....                            | 5  |
| CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (UNAUDITED) .....        | 6  |
| CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) .....                  | 7  |
| NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) .....             | 8  |
| 1. DESCRIPTION OF BUSINESS AND SEGMENTED DISCLOSURES .....               | 8  |
| 2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE .....                | 12 |
| 3. SIGNIFICANT ACCOUNTING POLICIES .....                                 | 12 |
| 4. ACQUISITION .....   | 14 |
| 5. FINANCE COSTS .....   | 17 |
| 6. FOREIGN EXCHANGE (GAIN) LOSS, NET .....                               | 17 |
| 7. OTHER (INCOME) LOSS, NET .....  | 17 |
| 8. IMPAIRMENT CHARGES .....  | 17 |
| 9. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS .....                | 19 |
| 10. INCOME TAXES .....   | 21 |
| 11. PER SHARE AMOUNTS .....  | 22 |
| 12. EXPLORATION AND EVALUATION ASSETS .....                              | 22 |
| 13. PROPERTY, PLANT AND EQUIPMENT, NET .....                             | 23 |
| 14. GOODWILL .....   | 23 |
| 15. CONTINGENT PAYMENT .....   | 23 |
| 16. LONG-TERM DEBT .....   | 24 |
| 17. DECOMMISSIONING LIABILITIES .....                                    | 25 |
| 18. OTHER LIABILITIES .....  | 25 |
| 19. SHARE CAPITAL .....  | 25 |
| 20. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) .....                  | 26 |
| 21. STOCK-BASED COMPENSATION PLANS .....                                 | 26 |
| 22. CAPITAL STRUCTURE .....  | 27 |
| 23. FINANCIAL INSTRUMENTS .....  | 28 |
| 24. RISK MANAGEMENT .....  | 30 |
| 25. SUPPLEMENTARY CASH FLOW INFORMATION .....                            | 31 |
| 26. COMMITMENTS AND CONTINGENCIES .....                                  | 32 |

# CONSOLIDATED STATEMENTS OF EARNINGS (LOSS) (unaudited)

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

|   | Notes | Three Months Ended |                                   | Twelve Months Ended |                                   |
|---|-------|--------------------|-----------------------------------|---------------------|-----------------------------------|
|   |       | 2017               | 2016<br>(Restated) <sup>(1)</sup> | 2017                | 2016<br>(Restated) <sup>(1)</sup> |
| <b>Revenues</b>   | 1     |                    |                                   |                     |                                   |
| Gross Sales   |       | 5,212              | 3,326                             | 17,314              | 11,015                            |
| Less: Royalties   |       | 133                | 2                                 | 271                 | 9                                 |
|   |       | <b>5,079</b>       | 3,324                             | <b>17,043</b>       | 11,006                            |
| <b>Expenses</b>   | 1     |                    |                                   |                     |                                   |
| Purchased Product   |       | 2,052              | 2,075                             | 8,033               | 6,978                             |
| Transportation and Blending   |       | 1,214              | 491                               | 3,748               | 1,715                             |
| Operating   |       | 557                | 326                               | 1,949               | 1,239                             |
| Production and Mineral Taxes  |       | 1                  | -                                 | 1                   | -                                 |
| (Gain) Loss on Risk Management                                      | 23    | 887                | 103                               | 896                 | 401                               |
| Depreciation, Depletion and Amortization                            | 13    | 618                | 239                               | 1,838               | 931                               |
| Exploration Expense   | 12    | 887                | -                                 | 888                 | 2                                 |
| General and Administrative  |       | 91                 | 101                               | 308                 | 326                               |
| Finance Costs   | 5     | 187                | 98                                | 645                 | 390                               |
| Interest Income   |       | (3)                | (7)                               | (62)                | (52)                              |
| Foreign Exchange (Gain) Loss, Net                                   | 6     | 24                 | 140                               | (812)               | (198)                             |
| Revaluation (Gain)  | 4     | -                  | -                                 | (2,555)             | -                                 |
| Transaction Costs   | 4     | -                  | -                                 | 56                  | -                                 |
| Re-measurement of Contingent Payment                                | 4,15  | (29)               | -                                 | (138)               | -                                 |
| Research Costs  |       | 21                 | 6                                 | 36                  | 36                                |
| (Gain) Loss on Divestiture of Assets                                |       | 1                  | -                                 | 1                   | 6                                 |
| Other (Income) Loss, Net  | 7     | (1)                | 27                                | (5)                 | 34                                |
| <b>Earnings (Loss) From Continuing Operations Before Income Tax</b> |       | <b>(1,428)</b>     | (275)                             | <b>2,216</b>        | (802)                             |
| Income Tax Expense (Recovery)                                       | 10    | (652)              | (66)                              | (52)                | (343)                             |
| <b>Net Earnings (Loss) From Continuing Operations</b>               |       | <b>(776)</b>       | (209)                             | <b>2,268</b>        | (459)                             |
| <b>Net Earnings (Loss) From Discontinued Operations</b>             | 9     | <b>1,396</b>       | 300                               | <b>1,098</b>        | (86)                              |
| <b>Net Earnings (Loss)</b>  |       | <b>620</b>         | 91                                | <b>3,366</b>        | (545)                             |
| <b>Basic and Diluted Earnings (Loss) Per Share (\$)</b>             | 11    |                    |                                   |                     |                                   |
| Continuing Operations   |       | (0.63)             | (0.25)                            | 2.06                | (0.55)                            |
| Discontinued Operations   |       | 1.13               | 0.36                              | 0.99                | (0.10)                            |
| <b>Net Earnings (Loss) Per Share</b>                                |       | <b>0.50</b>        | 0.11                              | <b>3.05</b>         | (0.65)                            |

(1) The comparative periods have been restated to reflect discontinued operations as discussed in Notes 1 and 9.

See accompanying Notes to Consolidated Financial Statements (unaudited).

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (unaudited)

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

|  | Notes | Three Months Ended |      | Twelve Months Ended |       |
|--|-------|--------------------|------|---------------------|-------|
|  |       | 2017               | 2016 | 2017                | 2016  |
| <b>Net Earnings (Loss)</b>   |       | <b>620</b>         | 91   | <b>3,366</b>        | (545) |
| <b>Other Comprehensive Income (Loss), Net of Tax</b>                         | 20    |                    |      |                     |       |
| <i>Items That Will Not be Reclassified to Profit or Loss:</i>                |       |                    |      |                     |       |
| Actuarial Gain (Loss) Relating to Pension and Other Post-Retirement Benefits |       | <b>8</b>           | 6    | <b>9</b>            | (3)   |
| <i>Items That May be Reclassified to Profit or Loss:</i>                     |       |                    |      |                     |       |
| Available for Sale Financial Assets – Change in Fair Value                   |       | -                  | -    | <b>(1)</b>          | (2)   |
| Available for Sale Financial Assets – Reclassified to Profit or Loss         |       | -                  | -    | -                   | 1     |
| Foreign Currency Translation Adjustment                                      |       | <b>15</b>          | 99   | <b>(275)</b>        | (106) |
| <b>Total Other Comprehensive Income (Loss), Net of Tax</b>                   |       | <b>23</b>          | 105  | <b>(267)</b>        | (110) |
| <b>Comprehensive Income (Loss)</b>   |       | <b>643</b>         | 196  | <b>3,099</b>        | (655) |

See accompanying Notes to Consolidated Financial Statements (unaudited).

# CONSOLIDATED BALANCE SHEETS (unaudited)

As at December 31,  
(\$ millions)

|   | Notes | 2017          | 2016   |
|---|-------|---------------|--------|
| <b>Assets</b>                                     |       |               |        |
| <b>Current Assets</b>                             |       |               |        |
| Cash and Cash Equivalents                         |       | 610           | 3,720  |
| Accounts Receivable and Accrued Revenues          |       | 1,830         | 1,838  |
| Income Tax Receivable                             |       | 68            | 6      |
| Inventories                                       |       | 1,389         | 1,237  |
| Risk Management                                   | 23,24 | 63            | 21     |
| Assets Held for Sale                              | 9     | 1,048         | -      |
| <b>Total Current Assets</b>                       |       | <b>5,008</b>  | 6,822  |
| Exploration and Evaluation Assets                 | 1,12  | 3,673         | 1,585  |
| Property, Plant and Equipment, Net                | 1,13  | 29,596        | 16,426 |
| Income Tax Receivable                             |       | 311           | 124    |
| Risk Management                                   | 23,24 | 2             | 3      |
| Other Assets                                      |       | 71            | 56     |
| Goodwill  | 14    | 2,272         | 242    |
| <b>Total Assets</b>                               |       | <b>40,933</b> | 25,258 |
| <b>Liabilities and Shareholders' Equity</b>       |       |               |        |
| <b>Current Liabilities</b>                        |       |               |        |
| Accounts Payable and Accrued Liabilities          |       | 2,635         | 2,266  |
| Contingent Payment                                | 15    | 38            | -      |
| Income Tax Payable                                |       | 129           | 112    |
| Risk Management                                   | 23,24 | 1,031         | 293    |
| Liabilities Related to Assets Held for Sale       | 9     | 603           | -      |
| <b>Total Current Liabilities</b>                  |       | <b>4,436</b>  | 2,671  |
| Long-Term Debt                                    | 16    | 9,513         | 6,332  |
| Contingent Payment                                | 15    | 168           | -      |
| Risk Management                                   | 23,24 | 20            | 22     |
| Decommissioning Liabilities                       | 17    | 1,029         | 1,847  |
| Other Liabilities                                 | 18    | 173           | 211    |
| Deferred Income Taxes                             |       | 5,613         | 2,585  |
| <b>Total Liabilities</b>                          |       | <b>20,952</b> | 13,668 |
| Shareholders' Equity                              |       | 19,981        | 11,590 |
| <b>Total Liabilities and Shareholders' Equity</b> |       | <b>40,933</b> | 25,258 |

See accompanying Notes to Consolidated Financial Statements (unaudited).

# CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (unaudited)

(\$ millions)

|                                   | Share<br>Capital<br>(Note 19) | Paid in<br>Surplus | Retained<br>Earnings | AOCI <sup>(1)</sup><br>(Note 20) | <b>Total</b>  |
|-----------------------------------|-------------------------------|--------------------|----------------------|----------------------------------|---------------|
| As at December 31, 2015           | 5,534                         | 4,330              | 1,507                | 1,020                            | 12,391        |
| Net Earnings (Loss)               | -                             | -                  | (545)                | -                                | (545)         |
| Other Comprehensive Income (Loss) | -                             | -                  | -                    | (110)                            | (110)         |
| Total Comprehensive Income (Loss) | -                             | -                  | (545)                | (110)                            | (655)         |
| Stock-Based Compensation Expense  | -                             | 20                 | -                    | -                                | 20            |
| Dividends on Common Shares        | -                             | -                  | (166)                | -                                | (166)         |
| As at December 31, 2016           | 5,534                         | 4,350              | 796                  | 910                              | 11,590        |
| Net Earnings (Loss)               | -                             | -                  | 3,366                | -                                | 3,366         |
| Other Comprehensive Income (Loss) | -                             | -                  | -                    | (267)                            | (267)         |
| Total Comprehensive Income (Loss) | -                             | -                  | 3,366                | (267)                            | 3,099         |
| Common Shares Issued              | 5,506                         | -                  | -                    | -                                | 5,506         |
| Stock-Based Compensation Expense  | -                             | 11                 | -                    | -                                | 11            |
| Dividends on Common Shares        | -                             | -                  | (225)                | -                                | (225)         |
| <b>As at December 31, 2017</b>    | <b>11,040</b>                 | <b>4,361</b>       | <b>3,937</b>         | <b>643</b>                       | <b>19,981</b> |

(1) Accumulated Other Comprehensive Income (Loss).

See accompanying Notes to Consolidated Financial Statements (unaudited).

# CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

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

|   | Notes | Three Months Ended |              | Twelve Months Ended |                |
|---|-------|--------------------|--------------|---------------------|----------------|
|   |       | 2017               | 2016         | 2017                | 2016           |
| <b>Operating Activities</b>   |       |                    |              |                     |                |
| Net Earnings (Loss)   |       | 620                | 91           | 3,366               | (545)          |
| Depreciation, Depletion and Amortization  | 13    | 620                | (71)         | 2,030               | 1,498          |
| Exploration Expense   | 12    | 887                | -            | 890                 | 2              |
| Deferred Income Taxes   | 10    | (153)              | 144          | 583                 | (209)          |
| Unrealized (Gain) Loss on Risk Management   | 23    | 654                | 114          | 729                 | 554            |
| Unrealized Foreign Exchange (Gain) Loss   | 6     | 51                 | 152          | (857)               | (189)          |
| Revaluation (Gain)  | 4     | -                  | -            | (2,555)             | -              |
| Re-measurement of Contingent Payment  | 15    | (29)               | -            | (138)               | -              |
| (Gain) Loss on Discontinuance   | 9     | (1,888)            | -            | (1,285)             | -              |
| (Gain) Loss on Divestiture of Assets  |       | 1                  | -            | 1                   | 6              |
| Unwinding of Discount on Decommissioning Liabilities                                      | 17    | 60                 | 33           | 128                 | 130            |
| Onerous Contract Provisions, Net of Cash Paid   |       | (1)                | 27           | (8)                 | 53             |
| Other Asset Impairments   | 7     | -                  | 23           | -                   | 30             |
| Other   |       | 44                 | 22           | 30                  | 93             |
| Net Change in Other Assets and Liabilities  |       | (32)               | (32)         | (107)               | (91)           |
| Net Change in Non-Cash Working Capital  |       | 66                 | (339)        | 252                 | (471)          |
| <b>Cash From Operating Activities</b>   |       | <b>900</b>         | <b>164</b>   | <b>3,059</b>        | <b>861</b>     |
| <b>Investing Activities</b>   |       |                    |              |                     |                |
| Acquisition, Net of Cash Acquired   | 4     | (3)                | -            | (14,565)            | -              |
| Capital Expenditures – Exploration and Evaluation Assets                                  | 12    | (19)               | (11)         | (147)               | (67)           |
| Capital Expenditures – Property, Plant and Equipment                                      | 13    | (568)              | (248)        | (1,523)             | (967)          |
| Proceeds From Divestiture of Assets   |       | 2,271              | -            | 3,210               | 8              |
| Net Change in Investments and Other   |       | -                  | (1)          | -                   | (1)            |
| Net Change in Non-Cash Working Capital  |       | 106                | 16           | 159                 | (52)           |
| <b>Cash From (Used in) Investing Activities</b>   |       | <b>1,787</b>       | <b>(244)</b> | <b>(12,866)</b>     | <b>(1,079)</b> |
| <b>Net Cash Provided (Used) Before Financing Activities</b>                               |       | <b>2,687</b>       | <b>(80)</b>  | <b>(9,807)</b>      | <b>(218)</b>   |
| <b>Financing Activities</b>   |       |                    |              |                     |                |
| Issuance of Long-Term Debt  | 25    | -                  | -            | 3,842               | -              |
| Net Issuance (Repayment) of Revolving Long-Term Debt                                      | 16    | (1)                | -            | 32                  | -              |
| Net Issuance of Debt Under Asset Sale Bridge Facility                                     | 16    | -                  | -            | 3,569               | -              |
| Repayment of Debt Under Asset Sale Bridge Facility  | 16    | (2,650)            | -            | (3,600)             | -              |
| Common Shares Issued, Net of Issuance Costs   | 19    | -                  | -            | 2,899               | -              |
| Dividends Paid on Common Shares   | 11    | (61)               | (42)         | (225)               | (166)          |
| Other   |       | -                  | (1)          | (2)                 | (2)            |
| <b>Cash From (Used in) Financing Activities</b>   |       | <b>(2,712)</b>     | <b>(43)</b>  | <b>6,515</b>        | <b>(168)</b>   |
| <b>Foreign Exchange Gain (Loss) on Cash and Cash Equivalents Held in Foreign Currency</b> |       | <b>3</b>           | <b>(7)</b>   | <b>182</b>          | <b>1</b>       |
| <b>Increase (Decrease) in Cash and Cash Equivalents</b>                                   |       | <b>(22)</b>        | <b>(130)</b> | <b>(3,110)</b>      | <b>(385)</b>   |
| <b>Cash and Cash Equivalents, Beginning of Period</b>                                     |       | <b>632</b>         | <b>3,850</b> | <b>3,720</b>        | <b>4,105</b>   |
| <b>Cash and Cash Equivalents, End of Period</b>   |       | <b>610</b>         | <b>3,720</b> | <b>610</b>          | <b>3,720</b>   |

See accompanying Notes to Consolidated Financial Statements (unaudited).

## 1. DESCRIPTION OF BUSINESS AND SEGMENTED DISCLOSURES

---

Cenovus Energy Inc. and its subsidiaries, (together "Cenovus" or the "Company") are in the business of 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 interim Consolidated Financial Statements is found in Note 2.

On May 17, 2017, Cenovus acquired from ConocoPhillips Company and certain of its subsidiaries (collectively, "ConocoPhillips") a 50 percent interest in FCCL Partnership ("FCCL") and the majority of ConocoPhillips' western Canadian conventional crude oil and natural gas assets (the "Deep Basin Assets"). This acquisition (the "Acquisition") increased Cenovus's interest in FCCL to 100 percent and expanded Cenovus's operating areas to include more than three million net acres of land, exploration and production assets and related infrastructure and agreements in Alberta and British Columbia. The Acquisition had an effective date of January 1, 2017 (see Note 4).

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

- **Oil Sands**, which includes the development and production of bitumen and natural gas in northeast Alberta. Cenovus's bitumen assets include Foster Creek, Christina Lake and Narrows Lake as well as other projects in the early stages of development. The Company's interest in certain of its operated oil sands properties, notably Foster Creek, Christina Lake and Narrows Lake, increased from 50 percent to 100 percent on May 17, 2017.
- **Deep Basin**, which includes approximately three million net acres of land primarily in the Elsworth-Wapiti, Kaybob-Edson, and Clearwater operating areas, rich in natural gas and NGLs. The assets reside in Alberta and British Columbia and include interests in numerous natural gas processing facilities. The Deep Basin Assets were acquired on May 17, 2017.
- **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 reportable 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.

In 2017, Cenovus disposed of the majority of the crude oil and natural gas assets in the Company's Conventional segment. As such, the results of operations have been classified as a discontinued operation (see Note 9). This segment included the production of conventional crude oil, NGLs and natural gas in Alberta and Saskatchewan, including the heavy oil assets at Pelican Lake, the CO<sub>2</sub> enhanced oil recovery project at Weyburn and emerging tight oil opportunities. As at December 31, 2017, all Conventional assets were sold, except for the Company's Suffield operations. The sale of the Suffield assets closed on January 5, 2018.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)  
All amounts in \$ millions, unless otherwise indicated  
For the period ended December 31, 2017

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 three months ended December 31,  | Oil Sands    |      | Deep Basin  |      | Refining and Marketing |       |
|--|--------------|------|-------------|------|------------------------|-------|
|  | 2017         | 2016 | 2017        | 2016 | 2017                   | 2016  |
| <b>Revenues</b>                          |              |      |             |      |                        |       |
| Gross Sales                              | 2,424        | 957  | 231         | -    | 2,690                  | 2,477 |
| Less: Royalties                          | 113          | 2    | 20          | -    | -                      | -     |
|  | <b>2,311</b> | 955  | <b>211</b>  | -    | <b>2,690</b>           | 2,477 |
| <b>Expenses</b>                          |              |      |             |      |                        |       |
| Purchased Product                        | -            | -    | -           | -    | 2,181                  | 2,181 |
| Transportation and Blending              | 1,193        | 493  | 24          | -    | -                      | -     |
| Operating                                | 271          | 142  | 94          | -    | 193                    | 185   |
| Production and Mineral Taxes             | -            | -    | 1           | -    | -                      | -     |
| (Gain) Loss on Risk Management           | 235          | (14) | -           | -    | 2                      | 3     |
| <b>Operating Margin</b>                  | <b>612</b>   | 334  | <b>92</b>   | -    | <b>314</b>             | 108   |
| Depreciation, Depletion and Amortization | 383          | 170  | 167         | -    | 53                     | 54    |
| Exploration Expense                      | 887          | -    | -           | -    | -                      | -     |
| <b>Segment Income (Loss)</b>             | <b>(658)</b> | 164  | <b>(75)</b> | -    | <b>261</b>             | 54    |

| For the three months ended December 31,                             | Corporate and Eliminations |       | Consolidated   |       |
|---|----------------------------|-------|----------------|-------|
|   | 2017                       | 2016  | 2017           | 2016  |
| <b>Revenues</b>   |                            |       |                |       |
| Gross Sales   | (133)                      | (108) | 5,212          | 3,326 |
| Less: Royalties   | -                          | -     | 133            | 2     |
|   | <b>(133)</b>               | (108) | <b>5,079</b>   | 3,324 |
| <b>Expenses</b>   |                            |       |                |       |
| Purchased Product   | (129)                      | (106) | 2,052          | 2,075 |
| Transportation and Blending   | (3)                        | (2)   | 1,214          | 491   |
| Operating   | (1)                        | (1)   | 557            | 326   |
| Production and Mineral Taxes  | -                          | -     | 1              | -     |
| (Gain) Loss on Risk Management                                      | 650                        | 114   | 887            | 103   |
| Depreciation, Depletion and Amortization                            | 15                         | 15    | 618            | 239   |
| Exploration Expense   | -                          | -     | 887            | -     |
| <b>Segment Income (Loss)</b>  | <b>(665)</b>               | (128) | <b>(1,137)</b> | 90    |
| General and Administrative  | 91                         | 101   | 91             | 101   |
| Finance Costs   | 187                        | 98    | 187            | 98    |
| Interest Income   | (3)                        | (7)   | (3)            | (7)   |
| Foreign Exchange (Gain) Loss, Net                                   | 24                         | 140   | 24             | 140   |
| Revaluation (Gain)  | -                          | -     | -              | -     |
| Transaction Costs   | -                          | -     | -              | -     |
| Re-measurement of Contingent Payment                                | (29)                       | -     | (29)           | -     |
| Research Costs  | 21                         | 6     | 21             | 6     |
| (Gain) Loss on Divestiture of Assets                                | 1                          | -     | 1              | -     |
| Other (Income) Loss, Net  | (1)                        | 27    | (1)            | 27    |
|   | <b>291</b>                 | 365   | <b>291</b>     | 365   |
| <b>Earnings (Loss) From Continuing Operations Before Income Tax</b> |                            |       | <b>(1,428)</b> | (275) |
| Income Tax Expense (Recovery)                                       |                            |       | <b>(652)</b>   | (66)  |
| <b>Net Earnings (Loss) From Continuing Operations</b>               |                            |       | <b>(776)</b>   | (209) |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)  
All amounts in \$ millions, unless otherwise indicated  
For the period ended December 31, 2017

| For the twelve months ended December 31, | Oil Sands    |       | Deep Basin   |      | Refining and Marketing |       |
|--|--------------|-------|--------------|------|------------------------|-------|
|  | 2017         | 2016  | 2017         | 2016 | 2017                   | 2016  |
| <b>Revenues</b>                          |              |       |              |      |                        |       |
| Gross Sales                              | 7,362        | 2,929 | 555          | -    | 9,852                  | 8,439 |
| Less: Royalties                          | 230          | 9     | 41           | -    | -                      | -     |
|  | <b>7,132</b> | 2,920 | <b>514</b>   | -    | <b>9,852</b>           | 8,439 |
| <b>Expenses</b>                          |              |       |              |      |                        |       |
| Purchased Product                        | -            | -     | -            | -    | 8,476                  | 7,325 |
| Transportation and Blending              | 3,704        | 1,721 | 56           | -    | -                      | -     |
| Operating                                | 934          | 501   | 250          | -    | 772                    | 742   |
| Production and Mineral Taxes             | -            | -     | 1            | -    | -                      | -     |
| (Gain) Loss on Risk Management           | 307          | (179) | -            | -    | 6                      | 26    |
| <b>Operating Margin</b>                  | <b>2,187</b> | 877   | <b>207</b>   | -    | <b>598</b>             | 346   |
| Depreciation, Depletion and Amortization | 1,230        | 655   | 331          | -    | 215                    | 211   |
| Exploration Expense                      | 888          | 2     | -            | -    | -                      | -     |
| <b>Segment Income (Loss)</b>             | <b>69</b>    | 220   | <b>(124)</b> | -    | <b>383</b>             | 135   |

| For the twelve months ended December 31,                            | Corporate and Eliminations |       | Consolidated   |        |
|---|----------------------------|-------|----------------|--------|
|   | 2017                       | 2016  | 2017           | 2016   |
| <b>Revenues</b>   |                            |       |                |        |
| Gross Sales   | (455)                      | (353) | 17,314         | 11,015 |
| Less: Royalties   | -                          | -     | 271            | 9      |
|   | <b>(455)</b>               | (353) | <b>17,043</b>  | 11,006 |
| <b>Expenses</b>   |                            |       |                |        |
| Purchased Product   | (443)                      | (347) | 8,033          | 6,978  |
| Transportation and Blending   | (12)                       | (6)   | 3,748          | 1,715  |
| Operating   | (7)                        | (4)   | 1,949          | 1,239  |
| Production and Mineral Taxes  | -                          | -     | 1              | -      |
| (Gain) Loss on Risk Management                                      | 583                        | 554   | 896            | 401    |
| Depreciation, Depletion and Amortization                            | 62                         | 65    | 1,838          | 931    |
| Exploration Expense   | -                          | -     | 888            | 2      |
| <b>Segment Income (Loss)</b>  | <b>(638)</b>               | (615) | <b>(310)</b>   | (260)  |
| General and Administrative  | 308                        | 326   | 308            | 326    |
| Finance Costs   | 645                        | 390   | 645            | 390    |
| Interest Income   | (62)                       | (52)  | (62)           | (52)   |
| Foreign Exchange (Gain) Loss, Net                                   | (812)                      | (198) | (812)          | (198)  |
| Revaluation (Gain)  | (2,555)                    | -     | (2,555)        | -      |
| Transaction Costs   | 56                         | -     | 56             | -      |
| Re-measurement of Contingent Payment                                | (138)                      | -     | (138)          | -      |
| Research Costs  | 36                         | 36    | 36             | 36     |
| (Gain) Loss on Divestiture of Assets                                | 1                          | 6     | 1              | 6      |
| Other (Income) Loss, Net  | (5)                        | 34    | (5)            | 34     |
|   | <b>(2,526)</b>             | 542   | <b>(2,526)</b> | 542    |
| <b>Earnings (Loss) From Continuing Operations Before Income Tax</b> |                            |       | <b>2,216</b>   | (802)  |
| Income Tax Expense (Recovery)                                       |                            |       | <b>(52)</b>    | (343)  |
| <b>Net Earnings (Loss) From Continuing Operations</b>               |                            |       | <b>2,268</b>   | (459)  |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)  
 All amounts in \$ millions, unless otherwise indicated  
 For the period ended December 31, 2017

**B) Revenues by Product**

| For the periods ended December 31,         | Three Months Ended |              | Twelve Months Ended |               |
|--|--------------------|--------------|---------------------|---------------|
|  | 2017               | 2016         | 2017                | 2016          |
| <b>Upstream</b>                            |                    |              |                     |               |
| Crude Oil                                  | 2,339              | 949          | 7,184               | 2,902         |
| Natural Gas <sup>(1)</sup>                 | 84                 | 5            | 235                 | 16            |
| NGLs                                       | 84                 | -            | 184                 | -             |
| Other                                      | 15                 | 1            | 43                  | 2             |
| <b>Refining and Marketing</b>              | <b>2,690</b>       | <b>2,477</b> | <b>9,852</b>        | <b>8,439</b>  |
| <b>Corporate and Eliminations</b>          | <b>(133)</b>       | <b>(108)</b> | <b>(455)</b>        | <b>(353)</b>  |
| <b>Revenues From Continuing Operations</b> | <b>5,079</b>       | <b>3,324</b> | <b>17,043</b>       | <b>11,006</b> |

(1) In the three and twelve months ending December 31, 2017, approximately 11 percent and 14 percent, respectively, of the natural gas produced by Cenovus's Deep Basin Assets was sold to ConocoPhillips resulting in gross sales of \$10 million and \$32 million, respectively.

**C) Geographical Information**

| For the periods ended December 31,         | Revenues           |              |                     |               |
|--|--------------------|--------------|---------------------|---------------|
|  | Three Months Ended |              | Twelve Months Ended |               |
|  | 2017               | 2016         | 2017                | 2016          |
| Canada                                     | 2,970              | 1,648        | 9,723               | 4,978         |
| United States                              | 2,109              | 1,676        | 7,320               | 6,028         |
| <b>Revenues From Continuing Operations</b> | <b>5,079</b>       | <b>3,324</b> | <b>17,043</b>       | <b>11,006</b> |

| As at December 31,    | Non-Current Assets <sup>(1)</sup> |               |
|-----------------------|-----------------------------------|---------------|
|                       | 2017                              | 2016          |
| Canada <sup>(2)</sup> | 31,756                            | 14,130        |
| United States         | 3,856                             | 4,179         |
| <b>Consolidated</b>   | <b>35,612</b>                     | <b>18,309</b> |

(1) Includes exploration and evaluation ("E&E") assets, property, plant and equipment ("PP&E"), goodwill and other assets.

(2) Certain crude oil and natural gas properties of the Conventional and Deep Basin segments, which reside in Canada, have been reclassified as held for sale in 2017 in current assets. 2016 includes \$3.1 billion related to the Conventional segment.

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

| As at December 31,         | E&E          |              | PP&E          |               |
|----------------------------|--------------|--------------|---------------|---------------|
|                            | 2017         | 2016         | 2017          | 2016          |
| Oil Sands                  | 617          | 1,564        | 22,320        | 8,798         |
| Deep Basin                 | 3,056        | -            | 3,019         | -             |
| Conventional               | -            | 21           | -             | 3,080         |
| Refining and Marketing     | -            | -            | 3,967         | 4,273         |
| Corporate and Eliminations | -            | -            | 290           | 275           |
| <b>Consolidated</b>        | <b>3,673</b> | <b>1,585</b> | <b>29,596</b> | <b>16,426</b> |

| As at December 31,         | Goodwill     |            | Total Assets  |               |
|----------------------------|--------------|------------|---------------|---------------|
|                            | 2017         | 2016       | 2017          | 2016          |
| Oil Sands                  | 2,272        | 242        | 26,799        | 11,112        |
| Deep Basin                 | -            | -          | 6,694         | -             |
| Conventional               | -            | -          | 644           | 3,196         |
| Refining and Marketing     | -            | -          | 5,432         | 6,613         |
| Corporate and Eliminations | -            | -          | 1,364         | 4,337         |
| <b>Consolidated</b>        | <b>2,272</b> | <b>242</b> | <b>40,933</b> | <b>25,258</b> |

## E) Capital Expenditures <sup>(1)</sup>

| For the periods ended December 31, | Three Months Ended |      | Twelve Months Ended |       |
|------------------------------------|--------------------|------|---------------------|-------|
|                                    | 2017               | 2016 | 2017                | 2016  |
| <b>Capital</b>                     |                    |      |                     |       |
| Oil Sands                          | 313                | 128  | 973                 | 604   |
| Deep Basin                         | 148                | -    | 225                 | -     |
| Conventional                       | 26                 | 57   | 206                 | 171   |
| Refining and Marketing             | 56                 | 65   | 180                 | 220   |
| Corporate                          | 40                 | 9    | 77                  | 31    |
| <b>Capital Investment</b>          | <b>583</b>         | 259  | <b>1,661</b>        | 1,026 |
| <b>Acquisition Capital</b>         |                    |      |                     |       |
| Oil Sands <sup>(2)</sup>           | 7                  | -    | 11,614              | 11    |
| Deep Basin                         | 80                 | -    | 6,774               | -     |
| <b>Total Capital Expenditures</b>  | <b>670</b>         | 259  | <b>20,049</b>       | 1,037 |

(1) Includes expenditures on PP&E, E&E assets and assets held for sale.

(2) In connection with the Acquisition discussed in Note 4, Cenovus was deemed to have disposed of its pre-existing interest in FCCL and re-acquired it at fair value as required by International Financial Reporting Standard 3, "Business Combinations" ("IFRS 3"), which is not reflected in the table above. The carrying value of the pre-existing interest was \$9,081 million and the estimated fair value was \$11,605 million as at May 17, 2017.

## 2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

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

These interim Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34").

Certain information provided for the prior year has been reclassified to conform to the presentation adopted for the period ended December 31, 2017.

These interim Consolidated Financial Statements were approved by the Audit Committee effective February 14, 2018.

## 3. SIGNIFICANT ACCOUNTING POLICIES

### A) Accounting Policies

Certain information and disclosures normally included in the notes to the annual Consolidated Financial Statements have been condensed or have been disclosed on an annual basis only. Accordingly, these interim Consolidated Financial Statements should be read in conjunction with the annual Consolidated Financial Statements for the year ended December 31, 2016, which have been prepared in accordance with IFRS as issued by the IASB. These interim Consolidated Financial Statements have been prepared following the same accounting policies and methods of computation as the annual Consolidated Financial Statements for the year ended December 31, 2016, except for income taxes. Clarification on the Company's business combinations and goodwill accounting policy has been added below.

#### Income Taxes

Income taxes on earnings or loss in interim periods are accrued using the income tax rate that would be applicable to the expected total annual earnings or loss.

#### Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method of accounting in which the identifiable assets acquired, liabilities assumed and non-controlling interest, if any, 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 cash-generating units ("CGUs") to which it relates. Subsequent measurement of goodwill is at cost less any accumulated impairment losses.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

All amounts in \$ millions, unless otherwise indicated  
For the period ended December 31, 2017

Contingent consideration transferred in a business combination is measured at fair value on the date of acquisition and classified as a financial liability or equity. Contingent consideration classified as a liability is re-measured at fair value at each reporting date, with changes in fair value recognized in net earnings. Payments are classified as cash used in investing activities until the cumulative payments exceed the acquisition date fair value of the liability. Cumulative payments in excess of the acquisition date fair value are classified as cash used in operating activities. Contingent consideration classified as equity are not re-measured and settlements are accounted for within equity.

When a business combination is achieved in stages, the Company re-measures its pre-existing interest at the acquisition date fair value and recognizes the resulting gain or loss, if any, in net earnings.

### **B) Recent Accounting Pronouncements**

#### ***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, 2018 and have not been applied in preparing the Consolidated Financial Statements for the year ended December 31, 2017. The standards applicable to Cenovus are as follows and will be adopted on their respective effective dates:

#### ***Financial Instruments***

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

IFRS 9 introduces a single approach to determine whether a financial asset is measured at amortized cost or fair value and replaces the multiple rules in IAS 39. The approach is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The IAS 39 measurement categories for financial assets will be replaced by fair value through profit or loss, fair value through other comprehensive income ("FVOCI") and amortized cost. The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale. Based on Management's assessment, the change in categories will not have a material impact on the Consolidated Financial Statements. As at December 31, 2017, the Company has private equity investments classified as available for sale with a fair value of \$37 million. Under IFRS 9, the Company has elected to measure these investments as FVOCI. As such, all fair value gains or losses will be recorded in other comprehensive income ("OCI"), impairments will not be recognized in net earnings and fair value gains or losses will not be recycled to net earnings on disposition.

IFRS 9 retains most of the IAS 39 requirements for financial liabilities. However, where the fair value option is applied to financial liabilities, the change in fair value resulting from an entity's own credit risk is recorded in OCI rather than net earnings, unless this creates an accounting mismatch. Cenovus currently does not designate any financial liabilities as fair value through profit or loss; therefore, there will be no impact on the accounting for financial liabilities.

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. Management does not expect a material change to its impairment provision as at January 1, 2018.

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

IFRS 9 must be adopted for years beginning on or after January 1, 2018. The Company will apply the new standard retrospectively and elect to use the practical expedients permitted under the standard. Comparative periods will not be restated.

#### ***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.

Management has assessed the impact of applying the new standard on the Consolidated Financial Statements and has not identified any material differences from its current revenue recognition practice.

The adoption of IFRS 15 is mandatory for years beginning on or after January 1, 2018. The standard may be applied either retrospectively or using a modified retrospective approach. Cenovus intends to adopt the standard using the modified retrospective approach recognizing the cumulative impact of adoption in retained earnings as of January 1, 2018. Comparative periods will not be restated. The Company will apply IFRS 15 using the practical expedient in paragraph C5(a) of IFRS 15, under which the Company will not restate contracts that are completed contracts as at the date of adoption.

### **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 has been adopted. The standard may be applied retrospectively or using a modified retrospective approach. The modified retrospective approach does not require restatement of prior period financial information as it recognizes the cumulative effect of applying the standard to prior periods as an adjustment to opening retained earnings. It is anticipated that the adoption of IFRS 16 will have a material impact on the Company's Consolidated Balance Sheets due to material operating lease commitments. Cenovus will adopt IFRS 16 effective January 1, 2019. The Company intends to adopt the standard using the retrospective with cumulative effect approach and apply several of the practical expedients available.

### **Uncertain Tax Positions**

In June 2017, the IASB issued International Financial Reporting Interpretation Committee 23, "Uncertainty Over Income Tax Treatments" ("IFRIC 23"). The interpretation provides clarity on how to account for a tax position when there is uncertainty over income tax treatments. In determining the likely resolution of the uncertain tax positions, a position may be considered separately or as a group. In addition, an assessment is required to determine the probability that the tax authority will accept the tax position taken in income tax filings. If the uncertain income tax treatment is unlikely to be accepted, the accounting tax position must reflect an appropriate level of uncertainty. An uncertain tax position may be reassessed if new information changes the original assessment. IFRIC 23 is effective for annual periods beginning on or after January 1, 2019 using either a modified or full retrospective approach. IFRIC 23 is not expected to have a significant impact on the Consolidated Financial Statements.

### **C) 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. Further to those areas discussed in the annual Consolidated Financial Statements for the year ended December 31, 2016, the estimation of fair values of the assets acquired and liabilities assumed in a business combination, including contingent payment and goodwill, is a key area involving significant estimates or judgments.

## **4. ACQUISITION**

---

### **FCCL and Deep Basin Acquisition**

#### **A) Summary of the Acquisition**

On May 17, 2017, Cenovus acquired ConocoPhillips' 50 percent interest in FCCL and the majority of ConocoPhillips' Deep Basin Assets in Alberta and British Columbia (the "Acquisition"). The Acquisition provides Cenovus with control over the Company's oil sands operations, doubles the Company's oil sands production, and almost doubles the Company's proved bitumen reserves. The Deep Basin Assets provide a second core operating area with more than three million net acres of land, exploration and production assets, and related infrastructure in Alberta and British Columbia.

The Acquisition has been accounted for using the acquisition method pursuant to IFRS 3. Under the acquisition method, assets and liabilities are recorded at their fair values on the date of acquisition and the total consideration is allocated to the tangible and intangible assets acquired and liabilities assumed. The excess of consideration given over the fair value of the net assets acquired has been recorded as goodwill.

#### **B) Identifiable Assets Acquired and Liabilities Assumed**

The final purchase price allocation is based on Management's best estimate of fair value and has been retrospectively adjusted to reflect new information obtained between May 17, 2017 and December 31, 2017 about conditions that existed at the acquisition date. As a result of these adjustments, the final purchase price allocation includes an increase of \$912 million to PP&E, \$56 million to inventory and \$16 million to accounts receivable and accrued revenues, as well as an \$822 million decrease to E&E assets. Goodwill from the Acquisition was reduced to \$2,030 million and the revaluation gain increased to \$2,555 million. These adjustments also resulted in a \$9 million increase to the deferred income tax liability. Depreciation, depletion and amortization ("DD&A"), operating

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)  
 All amounts in \$ millions, unless otherwise indicated  
 For the period ended December 31, 2017

expenses and deferred income tax expense of prior quarters have been restated to reflect the impact of these measurement period adjustments.

The following table summarizes the recognized amounts of assets acquired and liabilities assumed at the date of the Acquisition.

|  | Notes |                |
|--|-------|----------------|
| <b>100 Percent of the Identifiable Assets Acquired and Liabilities Assumed for FCCL</b>          |       |                |
| Cash   |       | <b>880</b>     |
| Accounts Receivable and Accrued Revenues   |       | <b>964</b>     |
| Inventories  |       | <b>345</b>     |
| E&E Assets   | 12    | <b>491</b>     |
| PP&E   | 13    | <b>22,717</b>  |
| Other Assets   |       | <b>27</b>      |
| Accounts Payable and Accrued Liabilities   |       | <b>(445)</b>   |
| Decommissioning Liabilities  | 17    | <b>(277)</b>   |
| Other Liabilities  |       | <b>(8)</b>     |
| Deferred Income Taxes  |       | <b>(2,506)</b> |
|  |       | <b>22,188</b>  |
| <b>Recognized Amounts of Identifiable Assets Acquired and Liabilities Assumed for Deep Basin</b> |       |                |
| Accounts Receivable and Accrued Revenues   |       | <b>16</b>      |
| Inventories  |       | <b>14</b>      |
| E&E Assets   | 12    | <b>3,117</b>   |
| PP&E   | 13    | <b>3,600</b>   |
| Accounts Payable and Accrued Liabilities   |       | <b>(6)</b>     |
| Decommissioning Liabilities  | 17    | <b>(667)</b>   |
|  |       | <b>6,074</b>   |
| <b>Total Identifiable Net Assets</b>   |       | <b>28,262</b>  |

The fair value of acquired accounts receivables and accrued revenues was \$980 million. As at December 31, 2017, \$964 million has been received and the remainder is expected to be collected.

**C) Total Consideration**

Total consideration for the Acquisition consisted of US\$10.6 billion in cash and 208 million Cenovus common shares plus closing adjustments. At the same time, Cenovus agreed to make certain quarterly contingent payments to ConocoPhillips during the five years subsequent to May 17, 2017 if crude oil prices exceed a specific threshold. The following table summarizes the fair value of the consideration:

|  |               |
|--|---------------|
| Common Shares                          | <b>2,579</b>  |
| Cash                                   | <b>15,005</b> |
|  | <b>17,584</b> |
| Estimated Contingent Payment (Note 15) | <b>361</b>    |
| <b>Total Consideration</b>             | <b>17,945</b> |

At the date of closing, the Company issued 208 million common shares to ConocoPhillips that were accounted for at \$12.40 per share, the estimated fair value for accounting purposes.

Consideration paid in cash was US\$10.6 billion, before closing adjustments, and was financed through a bought-deal common share offering (see Note 19) and an offering in the United States for senior unsecured notes (see Note 16). In addition, Cenovus borrowed \$3.6 billion under a committed asset sale bridge credit facility (see Note 16). The remainder of the cash purchase price was funded with cash on hand and a draw on Cenovus's existing committed credit facility.

The estimated contingent payment related to oil sands production reflects that Cenovus agreed to make quarterly payments to ConocoPhillips during the five years subsequent to the closing date for quarters in which the average Western Canadian Select ("WCS") crude oil price exceeds \$52.00 per barrel during the quarter. The quarterly payment will be \$6 million for each dollar that the WCS price exceeds \$52.00 per barrel. There are no maximum payment terms.

The calculation of any contingent payment includes an adjustment mechanism related to certain significant production outages at Foster Creek and Christina Lake, which may reduce the amount of a contingent payment. The terms of the contingent payment agreement allow Cenovus to retain 80 percent to 85 percent of the WCS prices above \$52.00 per barrel, based on gross production capacity at Foster Creek and Christina Lake at the time

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

All amounts in \$ millions, unless otherwise indicated  
For the period ended December 31, 2017

of the Acquisition. As production capacity increases with future expansions, the percentage of upside available to Cenovus will increase further.

The contingent payment is accounted for as a financial option. The fair value of \$361 million on May 17, 2017 was estimated by calculating the present value of the future expected cash flows using an option pricing model, which assumes the probability distribution for WCS is based on the volatility of West Texas Intermediate ("WTI") options, volatility of Canadian-U.S. foreign exchange rate options and WCS futures pricing, and discounted at a credit-adjusted risk-free rate of 2.9 percent. The contingent payment will be re-measured at fair value at each reporting date with changes in fair value recognized in net earnings (see Note 15).

### D) Goodwill

Goodwill arising from the Acquisition has been recognized as follows:

|  | Notes |                 |
|--|-------|-----------------|
| Total Purchase Consideration                                     | 4 C   | <b>17,945</b>   |
| Fair Value of Pre-Existing 50 Percent Ownership Interest in FCCL |       | <b>12,347</b>   |
| Fair Value of Identifiable Net Assets                            | 4 B   | <b>(28,262)</b> |
| <b>Goodwill</b>  |       | <b>2,030</b>    |

### Fair Value of Pre-Existing 50 Percent Ownership Interest in FCCL

Prior to the Acquisition, Cenovus's 50 percent interest in FCCL was jointly controlled with ConocoPhillips and met the definition of a joint operation under IFRS 11, "Joint Arrangements" and as such Cenovus recognized its share of the assets, liabilities, revenues and expenses in its consolidated results. Subsequent to the Acquisition, Cenovus controls FCCL, as defined under IFRS 10, "Consolidated Financial Statements" and, accordingly, FCCL has been consolidated from the date of acquisition. As required by IFRS 3, when an acquirer achieves control in stages, the previously held interest is re-measured to fair value at the acquisition date with any gain or loss recognized in net earnings. The acquisition-date fair value of the previously held interest was \$12.3 billion and has been included in the measurement of the total consideration transferred. The carrying value of the FCCL assets was \$9.7 billion. As a result, Cenovus recognized a non-cash revaluation gain of \$2.6 billion (\$1.9 billion, after-tax) on the re-measurement to fair value of its existing interest in FCCL.

Goodwill was recorded in connection with deferred tax liabilities arising from the difference between the purchase price allocated to the FCCL assets and liabilities based on fair value and the tax basis of these assets and liabilities. In addition, the consideration paid for FCCL included a control premium, which resulted in a higher value compared to the fair value of the net assets acquired.

### E) Acquisition-Related Costs

The Company incurred \$56 million of Acquisition-related costs, excluding common share and debt issuance costs. These costs have been included in transaction costs in the Consolidated Statements of Earnings.

Debt issuance costs related to the Acquisition financing were \$72 million. These costs are netted against the carrying amount of the debt and amortized using the effective interest method.

### F) Transitional Services

Under the purchase and sales agreement, Cenovus and ConocoPhillips agreed to certain transitional services where ConocoPhillips provided certain day-to-day services required by Cenovus for a period of approximately nine months. These transactions were in the normal course of operations and have been measured at the exchange amounts.

Costs related to the transitional services of approximately \$40 million were recorded in general and administrative expenses.

### G) Revenue and Profit Contribution

The acquired business contributed revenues of \$3.3 billion and net earnings of \$172 million for the period from May 17, 2017 to December 31, 2017.



If the closing of the Acquisition had occurred on January 1, 2017, Cenovus's consolidated pro forma revenue and net earnings for the twelve months ended December 31, 2017 would have been \$19.0 billion and \$3.5 billion, respectively. These amounts have been calculated using results from the acquired business and adjusting them for:

- Differences in accounting policies;
- Additional finance costs that would have been incurred if the amounts drawn on the Company's committed asset sale bridge credit facility and the senior unsecured notes issued to fund the Acquisition had occurred on January 1, 2017;
- Additional DD&A that would have been charged assuming the fair value adjustments to PP&E and E&E assets had applied from January 1, 2017;
- Accretion on the decommissioning liability if it had been assumed on January 1, 2017; and
- The consequential tax effects.

This pro forma information is not necessarily indicative of the results that would have been obtained if the Acquisition had actually occurred on January 1, 2017.

## 5. FINANCE COSTS

| For the periods ended December 31,                             | Three Months Ended |      | Twelve Months Ended |      |
|--|--------------------|------|---------------------|------|
|  | 2017               | 2016 | 2017                | 2016 |
| Interest Expense - Short-Term Borrowings and Long-Term Debt    | 166                | 86   | 571                 | 341  |
| Unwinding of Discount on Decommissioning Liabilities (Note 17) | 16                 | 7    | 48                  | 28   |
| Other  | 5                  | 5    | 26                  | 21   |
|  | <b>187</b>         | 98   | <b>645</b>          | 390  |

## 6. FOREIGN EXCHANGE (GAIN) LOSS, NET

| For the periods ended December 31,                         | Three Months Ended |      | Twelve Months Ended |       |
|--|--------------------|------|---------------------|-------|
|  | 2017               | 2016 | 2017                | 2016  |
| Unrealized Foreign Exchange (Gain) Loss on Translation of: |                    |      |                     |       |
| U.S. Dollar Debt Issued From Canada                        | 50                 | 147  | (665)               | (196) |
| Other  | 1                  | 5    | (192)               | 7     |
| <b>Unrealized Foreign Exchange (Gain) Loss</b>             | <b>51</b>          | 152  | <b>(857)</b>        | (189) |
| <b>Realized Foreign Exchange (Gain) Loss</b>               | <b>(27)</b>        | (12) | <b>45</b>           | (9)   |
|  | <b>24</b>          | 140  | <b>(812)</b>        | (198) |

## 7. OTHER (INCOME) LOSS, NET

As at December 31, 2016, due to the Government of Canada's decision to reject the Northern Gateway Pipeline project, the Company wrote off \$23 million of capitalized costs associated with its funding support unit in Northern Gateway Pipeline. In addition, \$7 million of costs associated with termination were recorded and \$7 million of certain investments in private equity companies were written off.

## 8. IMPAIRMENT CHARGES AND REVERSALS

### A) Cash-Generating Unit Net Impairments

On a quarterly basis, the Company assesses its CGUs for indicators of impairment or when facts and circumstances suggest the carrying amount may exceed its recoverable amount. Goodwill is tested for impairment at least annually.

#### 2017 Upstream Impairments

As indicators of impairment were noted for the Company's upstream assets due to a decline in forward commodity prices since the Acquisition, the Company tested its upstream CGUs for impairment. As at December 31, 2017, the Company determined that the carrying amount of the Clearwater CGU exceeded its recoverable amount, resulting in an impairment loss of \$56 million. The impairment was recorded as additional DD&A in the Deep Basin segment. Future cash flows for the CGU declined due to lower forward crude oil prices and revisions to the development plan. As at December 31, 2017, the recoverable amount of the Clearwater CGU was estimated to be approximately \$295 million.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

All amounts in \$ millions, unless otherwise indicated  
For the period ended December 31, 2017

### Key Assumptions

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. The fair values for producing properties were calculated based on discounted after-tax cash flows of proved and probable reserves using forward prices and cost estimates, prepared by Cenovus's independent qualified reserves evaluators ("IQREs") (Level 3). Key assumptions in the determination of future cash flows from reserves include crude oil and natural gas prices, costs to develop and the discount rate. All reserves have been evaluated as at December 31, 2017 by the IQREs.

### Crude Oil, NGLs and Natural Gas Prices

The forward prices as at December 31, 2017, used to determine future cash flows from crude oil, NGLs and natural gas reserves were:

|                                   | 2018  | 2019  | 2020  | 2021  | 2022  | Average Annual Increase Thereafter |
|-----------------------------------|-------|-------|-------|-------|-------|------------------------------------|
| WTI (US\$/barrel)                 | 57.50 | 60.90 | 64.13 | 68.33 | 71.19 | 2.1%                               |
| WCS (C\$/barrel)                  | 50.61 | 56.59 | 60.86 | 64.56 | 66.63 | 2.1%                               |
| Edmonton C5+ (C\$/barrel)         | 72.41 | 74.90 | 77.07 | 81.07 | 83.32 | 2.1%                               |
| AECO (C\$/Mcf) <sup>(1) (2)</sup> | 2.43  | 2.77  | 3.19  | 3.48  | 3.67  | 2.0%                               |

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

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

### Discount and Inflation Rates

Discounted future cash flows are determined by applying a discount rate between 10 percent and 15 percent based on the individual characteristics of the CGU, and other economic and operating factors. Inflation is estimated at two percent.

For the purpose of impairment testing, goodwill is allocated to the CGU to which it relates. There were no goodwill impairments for the twelve months ended December 31, 2017.

### Sensitivities

The sensitivity analysis below shows the impact that a change in the discount rate or forward commodity prices would have on impairment testing for the following CGUs:

|                | Increase (Decrease) to Impairment         |   |   |  |
|----------------|---|---|---|--|
|                | One Percent Increase in the Discount Rate | One Percent Decrease in the Discount Rate | Five Percent Increase in the Forward Price Estimates <sup>(1)</sup> | Five Percent Decrease in the Forward Price Estimates |
| Clearwater     | 27  | (30)                                      | (56)  | 65   |
| Primrose       | -   | -   | -   | -  |
| Christina Lake | -   | -   | -   | -  |
| Narrows Lake   | 312                                       | -   | -   | 333  |

(1) The \$56 million represents the impairment loss as at December 31, 2017 that could be reversed in future periods.

### 2016 Net Upstream Impairments

As at December 31, 2016, the recoverable value of the Northern Alberta CGU was estimated to be \$1.1 billion. Earlier in 2016 and 2015, impairment losses of \$380 million and \$184 million, respectively, were recorded primarily due to a decline in long-term heavy crude oil prices and a slowing of the development plan. In the fourth quarter of 2016, the Company reversed \$400 million of impairment losses, net of the DD&A that would have been recorded had no impairments been recorded. The reversal arose due to the increase in the CGU's estimated recoverable amount caused by an average reduction in expected future operating costs of five percent and lower future development costs, partially offset by a decline in estimated reserves. The impairment losses and subsequent reversal were recorded as DD&A in the Conventional segment, which has been classified as a discontinued operation (see Note 9). The Northern Alberta CGU included the Pelican Lake and Elk Point producing assets and other emerging assets in the exploration and evaluation stage.

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

which has been classified as a discontinued operation (see Note 9). The Suffield CGU included production of natural gas and heavy crude oil in Alberta on the Canadian Forces Base.

### Key Assumptions

The fair values for producing properties were calculated based on discounted after-tax cash flows of proved and probable reserves using forward prices and cost estimates, prepared by Cenovus's IQREs (Level 3). Future cash flows were estimated using a two percent inflation rate and discounted using a rate of 10 percent. Forward prices as at December 31, 2016 used to determine future cash flows from crude oil and natural gas reserves were:

|                               | 2017  | 2018  | 2019  | 2020  | 2021  | Average Annual Increase Thereafter |
|-------------------------------|-------|-------|-------|-------|-------|------------------------------------|
| WTI (US\$/barrel)             | 55.00 | 58.70 | 62.40 | 69.00 | 75.80 | 2.0%                               |
| WCS (C\$/barrel)              | 53.70 | 58.20 | 61.90 | 66.50 | 71.00 | 2.0%                               |
| AECO (C\$/Mcf) <sup>(1)</sup> | 3.40  | 3.15  | 3.30  | 3.60  | 3.90  | 2.2%                               |

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

There were no goodwill impairments for the twelve months ended December 31, 2016.

## B) Asset Impairments and Writedowns

### Exploration and Evaluation Assets

For the year ended December 31, 2017, Management wrotedown certain E&E assets, as their carrying values were not considered to be recoverable. As a result, \$888 million of previously capitalized costs were recorded as exploration expense. These assets reside primarily in the Borealis CGU within the Oil Sands segment.

Management's decision was based on a comprehensive review of spending to date, decisions to limit spending on these assets in recent years and the current business plan spending on the assets going forward. At this point, Management is not committing further material funding beyond that required to retain ownership of this significant resource. In addition, regulatory changes to the Oil Sands Royalty application process impact the economic viability of these projects.

In 2016, \$2 million of previously capitalized E&E costs were written off and recorded as exploration expense in the Oil Sands segment.

### Property, Plant and Equipment, Net

In 2017, the Company recorded an impairment loss of \$21 million related to equipment that was written down to its recoverable amount. The impairment loss relates to the Oil Sands segment.

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

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

## 9. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

In the second quarter of 2017, the Company announced its intention to divest of its Conventional segment which included its heavy oil assets at Pelican Lake, the carbon dioxide enhanced oil recovery project at Weyburn and conventional crude oil, natural gas and NGLs assets in the Suffield and Palliser areas in southern Alberta. The associated assets and liabilities were consequently presented as held for sale and the results of operations reported as a discontinued operation.

### A) Results of Discontinued Operations

In 2017, the Company sold the majority of its Conventional segment assets for total gross cash proceeds of \$3.2 billion before closing adjustments. Details of the asset sales are as follows:

#### Pelican Lake

On September 29, 2017, the Company completed the sale of its Pelican Lake heavy oil operations, as well as other miscellaneous assets in northern Alberta, for cash proceeds of \$975 million before closing adjustments. A before tax loss on discontinuance of \$623 million was recorded on the sale.

### Palliser

On December 7, 2017, Cenovus completed the sale of its Palliser crude oil and natural gas operations in southern Alberta for cash proceeds of \$1.3 billion before closing adjustments. A before tax gain on discontinuance of \$1.6 billion was recorded on the sale.

### Weyburn

On December 14, 2017, the Company completed the sale of its Weyburn assets in southern Saskatchewan for cash proceeds of \$940 million before closing adjustments. A before tax gain on discontinuance of \$276 million was recorded on the sale.

### Suffield

On September 25, 2017, Cenovus entered into an agreement to sell its Suffield crude oil and natural gas operations in southern Alberta for cash proceeds of \$512 million, before closing adjustments. The sale closed on January 5, 2018. The Company anticipates a before-tax gain of approximately \$350 million to be recorded in 2018. The agreement includes a deferred purchase price adjustment ("DPPA") that could provide Cenovus with purchase price adjustments of up to \$36 million if the average crude oil and natural gas prices meet certain thresholds over the next two years.

The DPPA is a two year agreement that commences on close. Under the purchase and sale agreement, Cenovus is entitled to receive cash for each month in which the average daily price of WTI is above US\$55 per barrel or the price of Henry Hub natural gas is above US\$3.50 per million British thermal units. Monthly cash payments are capped at \$375 thousand and \$1.125 million for crude oil and natural gas, respectively. The DPPA will be accounted for as a financial option and fair valued at each reporting date. The fair value of the DPPA on the date of close was \$7 million.

The following table presents the results of discontinued operations, including asset sales:

| For the periods ended December 31,                                    | Three Months Ended |       | Twelve Months Ended |       |
|---|--------------------|-------|---------------------|-------|
|   | 2017               | 2016  | 2017                | 2016  |
| <b>Revenues</b>   |                    |       |                     |       |
| Gross Sales   | 218                | 369   | 1,309               | 1,267 |
| Less: Royalties   | 29                 | 51    | 174                 | 139   |
|   | 189                | 318   | 1,135               | 1,128 |
| <b>Expenses</b>   |                    |       |                     |       |
| Transportation and Blending   | 18                 | 50    | 167                 | 186   |
| Operating   | 83                 | 113   | 426                 | 444   |
| Production and Mineral Taxes  | 4                  | 3     | 18                  | 12    |
| (Gain) Loss on Risk Management  | 14                 | (1)   | 33                  | (58)  |
| <b>Operating Margin</b>   | 70                 | 153   | 491                 | 544   |
| Depreciation, Depletion and Amortization                              | 2                  | (310) | 192                 | 567   |
| Exploration Expense   | -                  | -     | 2                   | -     |
| Finance Costs   | 44                 | 26    | 80                  | 102   |
| <b>Earnings (Loss) From Discontinued Operations Before Income Tax</b> | 24                 | 437   | 217                 | (125) |
| Current Tax Expense (Recovery)  | -                  | -     | 24                  | 86    |
| Deferred Tax Expense (Recovery)                                       | 6                  | 137   | 33                  | (125) |
| <b>After-tax Earnings (Loss) From Discontinued Operations</b>         | 18                 | 300   | 160                 | (86)  |
| <b>After-tax Gain (Loss) on Discontinuance <sup>(1)</sup></b>         | 1,378              | -     | 938                 | -     |
| <b>Net Earnings (Loss) From Discontinued Operations</b>               | 1,396              | 300   | 1,098               | (86)  |

(1) Net of deferred tax expense of \$510 million and \$347 million, respectively, in the three and twelve months ended December 31, 2017.

### B) Cash Flows From Discontinued Operations

Cash flows from discontinued operations reported in the Consolidated Statement of Cash Flows are:

| For the periods ended December 31,       | Three Months Ended |      | Twelve Months Ended |       |
|--|--------------------|------|---------------------|-------|
|  | 2017               | 2016 | 2017                | 2016  |
| Cash From Operating Activities           | 67                 | 142  | 448                 | 435   |
| Cash From (Used in) Investing Activities | 2,234              | (57) | 2,993               | (168) |
| <b>Net Cash Flow</b>                     | 2,301              | 85   | 3,441               | 267   |

### C) Assets and Liabilities Held for Sale

In the fourth quarter of 2017, the Company announced its intention to market for sale a package of non-core Deep Basin assets in the East Clearwater area and a portion of the West Clearwater assets. The assets have been classified as held for sale and recorded at the lesser of their carrying amount and their fair value less cost to sell. Assets and liabilities held for sale also include the Suffield operations, which were sold on January 5, 2018. No impairments were recorded on the assets held for sale as at December 31, 2017.

| As at December 31, 2017 | E&E Assets<br>(Note 12) | PP&E<br>(Note 13) | Decommissioning<br>Liabilities<br>(Note 17) |
|-------------------------|-------------------------|-------------------|---|
| Conventional            | -                       | 568               | 454   |
| Deep Basin              | 46                      | 434               | 149   |
|                         | <b>46</b>               | <b>1,002</b>      | <b>603</b>                                  |

## 10. INCOME TAXES

The provision for income taxes is:

| For the periods ended December 31,                       | Three Months Ended |             | Twelve Months Ended |              |
|--|--------------------|-------------|---------------------|--------------|
|  | 2017               | 2016        | 2017                | 2016         |
| Current Tax  |                    |             |                     |              |
| Canada   | 15                 | (73)        | (217)               | (260)        |
| United States  | 2                  | -           | (38)                | 1            |
| <b>Current Tax Expense (Recovery)</b>                    | <b>17</b>          | <b>(73)</b> | <b>(255)</b>        | <b>(259)</b> |
| <b>Deferred Tax Expense (Recovery)</b>                   | <b>(669)</b>       | <b>7</b>    | <b>203</b>          | <b>(84)</b>  |
| <b>Tax Expense (Recovery) From Continuing Operations</b> | <b>(652)</b>       | <b>(66)</b> | <b>(52)</b>         | <b>(343)</b> |

In 2017 and 2016, the Company recorded a current tax recovery due to the carryback of losses for income tax purposes and prior year adjustments. A deferred tax expense was recorded in 2017 due to the revaluation gain of our pre-existing interest in connection with the Acquisition, partially offset by a \$275 million recovery from the reduction of the U.S. federal corporate income tax rate from 35 percent to 21 percent reducing the Company's deferred income tax liability and the impact of E&E asset writedowns.

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

| For the periods ended December 31,                                  | Twelve Months Ended |       |
|---|---------------------|-------|
|   | 2017                | 2016  |
| <b>Earnings (Loss) From Continuing Operations Before Income Tax</b> | <b>2,216</b>        | (802) |
| Canadian Statutory Rate   | <b>27.0%</b>        | 27.0% |
| <b>Expected Income Tax (Recovery)</b>                               | <b>598</b>          | (217) |
| Effect of Taxes Resulting From:                                     |                     |       |
| Foreign Tax Rate Differential                                       | (17)                | (46)  |
| Non-Taxable Capital (Gains) Losses                                  | (148)               | (26)  |
| Non-Recognition of Capital (Gains) Losses                           | (118)               | (26)  |
| Adjustments Arising From Prior Year Tax Filings                     | (41)                | (46)  |
| (Recognition) of Previously Unrecognized Capital Losses             | (68)                | -     |
| Change in U.S. Statutory Rate                                       | (275)               | -     |
| Non-Deductible Expenses   | (5)                 | 5     |
| Other   | 22                  | 13    |
| <b>Tax Expense (Recovery) From Continuing Operations</b>            | <b>(52)</b>         | (343) |
| <b>Effective Tax Rate</b>   | <b>(2.3)%</b>       | 42.8% |

## 11. PER SHARE AMOUNTS

### A) Net Earnings (Loss) Per Share – Basic and Diluted

| For the periods ended December 31,                            | Three Months Ended |        | Twelve Months Ended |        |
|---|--------------------|--------|---------------------|--------|
|   | 2017               | 2016   | 2017                | 2016   |
| <b>Earnings (Loss) From:</b>                                  |                    |        |                     |        |
| Continuing Operations   | (776)              | (209)  | 2,268               | (459)  |
| Discontinued Operations                                       | 1,396              | 300    | 1,098               | (86)   |
| Net Earnings (Loss)   | 620                | 91     | 3,366               | (545)  |
| <b>Weighted Average Number of Shares</b> (millions)           | 1,228.8            | 833.3  | 1,102.5             | 833.3  |
| <b>Basic and Diluted Earnings (Loss) Per Share From: (\$)</b> |                    |        |                     |        |
| Continuing Operations   | (0.63)             | (0.25) | 2.06                | (0.55) |
| Discontinued Operations                                       | 1.13               | 0.36   | 0.99                | (0.10) |
| Net Earnings (Loss) Per Share                                 | 0.50               | 0.11   | 3.05                | (0.65) |

### B) Dividends Per Share

For the twelve months ended December 31, 2017, the Company paid dividends of \$225 million or \$0.20 per share (twelve months ended December 31, 2016 – \$166 million or \$0.20 per share).

## 12. EXPLORATION AND EVALUATION ASSETS

|  | <b>Total</b> |
|--|--------------|
| As at December 31, 2016                    | 1,585        |
| Additions                                  | 147          |
| Acquisition (Note 4) <sup>(1)</sup>        | 3,608        |
| Transfers to Assets Held for Sale (Note 9) | (316)        |
| Transfers to PP&E (Note 13)                | (6)          |
| Exploration Expense (Notes 8 and 9)        | (890)        |
| Change in Decommissioning Liabilities      | 5            |
| Exchange Rate Movements and Other          | 19           |
| Divestitures <sup>(1)</sup>                | (479)        |
| <b>As at December 31, 2017</b>             | <b>3,673</b> |

<sup>(1)</sup> In connection with the Acquisition, Cenovus was deemed to have disposed of its pre-existing interest in FCCL and re-acquired it at fair value as required by IFRS 3.

### 13. PROPERTY, PLANT AND EQUIPMENT, NET

|   | Upstream Assets          |                | Refining Equipment | Other <sup>(1)</sup> | Total         |
|---|--------------------------|----------------|--------------------|----------------------|---------------|
|   | Development & Production | Other Upstream |                    |                      |               |
| <b>COST</b>   |                          |                |                    |                      |               |
| As at December 31, 2016                                     | 31,941                   | 333            | 5,259              | 1,074                | 38,607        |
| Additions   | 1,324                    | -              | 168                | 89                   | 1,581         |
| Acquisition (Note 4) <sup>(2)</sup>                         | 26,317                   | -              | -                  | -                    | 26,317        |
| Transfers From E&E Assets (Note 12)                         | 6                        | -              | -                  | -                    | 6             |
| Transfers to Assets Held for Sale (Note 9)                  | (19,719)                 | -              | -                  | -                    | (19,719)      |
| Change in Decommissioning Liabilities                       | (67)                     | -              | -                  | 3                    | (64)          |
| Exchange Rate Movements and Other                           | (28)                     | -              | (364)              | 1                    | (391)         |
| Divestitures <sup>(2)</sup>                                 | (12,333)                 | -              | (2)                | -                    | (12,335)      |
| <b>As at December 31, 2017</b>                              | <b>27,441</b>            | <b>333</b>     | <b>5,061</b>       | <b>1,167</b>         | <b>34,002</b> |
| <b>ACCUMULATED DEPRECIATION, DEPLETION AND AMORTIZATION</b> |                          |                |                    |                      |               |
| As at December 31, 2016                                     | 20,088                   | 308            | 1,076              | 709                  | 22,181        |
| DD&A  | 1,653                    | 23             | 209                | 68                   | 1,953         |
| Impairment Losses (Note 8)                                  | 77                       | -              | -                  | -                    | 77            |
| Transfers to Assets Held for Sale (Note 9)                  | (16,120)                 | -              | -                  | -                    | (16,120)      |
| Exchange Rate Movements and Other                           | 17                       | -              | (91)               | 1                    | (73)          |
| Divestitures <sup>(2)</sup>                                 | (3,611)                  | -              | (1)                | -                    | (3,612)       |
| <b>As at December 31, 2017</b>                              | <b>2,104</b>             | <b>331</b>     | <b>1,193</b>       | <b>778</b>           | <b>4,406</b>  |
| <b>CARRYING VALUE</b>                                       |                          |                |                    |                      |               |
| As at December 31, 2016                                     | 11,853                   | 25             | 4,183              | 365                  | 16,426        |
| <b>As at December 31, 2017</b>                              | <b>25,337</b>            | <b>2</b>       | <b>3,868</b>       | <b>389</b>           | <b>29,596</b> |

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

<sup>(2)</sup> In connection with the Acquisition, Cenovus was deemed to have disposed of its pre-existing interest in FCCL and re-acquired it at fair value as required by IFRS 3. The carrying value of the pre-existing interest in FCCL was \$8,602 million.

### 14. GOODWILL

| As at December 31,                          | 2017         | 2016       |
|---|--------------|------------|
| Carrying Value, Beginning of Year           | 242          | 242        |
| Goodwill Recognized on Acquisition (Note 4) | 2,030        | -          |
| <b>Carrying Value, End of Year</b>          | <b>2,272</b> | <b>242</b> |

The carrying amount of goodwill allocated to the Company's exploration and production CGUs is:

| As at December 31,                     | 2017         | 2016       |
|--|--------------|------------|
| Primrose (Foster Creek) <sup>(1)</sup> | 1,101        | 242        |
| Christina Lake <sup>(1)</sup>          | 1,171        | -          |
|  | <b>2,272</b> | <b>242</b> |

<sup>(1)</sup> Goodwill recognized on the Acquisition reflects measurement period adjustments.

### 15. CONTINGENT PAYMENT

|  | Total      |
|--|------------|
| As at January 1, 2017                        | -          |
| Initial Recognition on May 17, 2017 (Note 4) | 361        |
| Re-measurement <sup>(1)</sup>                | (138)      |
| Liabilities Settled or Payable               | (17)       |
| <b>As at December 31, 2017</b>               | <b>206</b> |
| Less: Current Portion                        | 38         |
| Long-Term Portion                            | <b>168</b> |

<sup>(1)</sup> Contingent payment is carried at fair value. Changes in fair value are recorded in net earnings.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)  
 All amounts in \$ millions, unless otherwise indicated  
 For the period ended December 31, 2017

In connection with the Acquisition (see Note 4), Cenovus agreed to make quarterly payments to ConocoPhillips during the five years subsequent to May 17, 2017 for quarters in which the average WCS crude oil price exceeds \$52.00 per barrel during the quarter. The quarterly payment will be \$6 million for each dollar that the WCS price exceeds \$52.00 per barrel. The calculation includes an adjustment mechanism related to certain significant production outages at Foster Creek and Christina Lake which may reduce the amount of a contingent payment. For the three months ended December 31, 2017, \$17 million is payable under this agreement.

## 16. LONG-TERM DEBT

| As at December 31,                      | Notes | US\$ Principal<br>Amount | 2017         | 2016  |
|---|-------|--------------------------|--------------|-------|
| Revolving Term Debt <sup>(1)</sup>      | A     | -                        | -            | -     |
| Asset Sale Bridge Credit Facility       | B     | -                        | -            | -     |
| U.S. Dollar Denominated Unsecured Notes | C     | 7,650                    | 9,597        | 6,378 |
| <b>Total Debt Principal</b>             |       |                          | <b>9,597</b> | 6,378 |
| Debt Discounts and Transaction Costs    |       |                          | <b>(84)</b>  | (46)  |
| Long-Term Debt                          |       |                          | <b>9,513</b> | 6,332 |

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

### A) Revolving Term Debt

On April 28, 2017, Cenovus amended its existing committed credit facility to increase the capacity of the facility by \$0.5 billion to \$4.5 billion and to extend the maturity dates. The committed credit facility consists of a \$1.2 billion tranche maturing on November 30, 2020 and a \$3.3 billion tranche maturing on November 30, 2021. Borrowings are available by way of Bankers' Acceptances, LIBOR based loans, prime rate loans or U.S. base rate loans. As at December 31, 2017, there were no amounts drawn on Cenovus's committed credit facility (2016 – \$nil).

### B) Asset Sale Bridge Credit Facility

In connection with the Acquisition, Cenovus borrowed \$3.6 billion under a committed asset sale bridge credit facility. Net proceeds from the sale of the Company's Conventional segment assets (see Note 9) and cash on hand were used to repay and retire the committed asset bridge credit facility prior to December 31, 2017.

### C) Unsecured Notes

On April 7, 2017, Cenovus completed an offering in the United States for US\$2.9 billion in senior unsecured notes in three series (collectively, the "2017 Notes"), as follows:

| As at December 31, | US\$ Principal<br>Amount | 2017  |
|--------------------|--------------------------|-------|
| 4.25% due 2027     | 1,200                    | 1,505 |
| 5.25% due 2037     | 700                      | 878   |
| 5.40% due 2047     | 1,000                    | 1,255 |
|                    | 2,900                    | 3,638 |

In the fourth quarter of 2017, the Company completed an exchange offer ("Exchange Offering") whereby substantially all of the 2017 Notes were exchanged for notes registered under the Securities Act of 1933 with essentially the same terms and provisions as the 2017 Notes. The Exchange Offering has been treated as a modification for accounting purposes and not an extinguishment.

On October 10, 2017, Cenovus filed a base shelf prospectus that allows the Company to offer, from time to time, up to US\$7.5 billion, or the equivalent in other currencies, of debt securities, common shares, preferred shares, subscription receipts, warrants, share purchase contracts and units in Canada, the U.S. and elsewhere where permitted by law. The base shelf prospectus is available to ConocoPhillips to offer, should they so choose from time to time, the common shares they acquired in connection with the Acquisition. The base shelf prospectus will expire in November 2019. Following the completion of the Exchange Offering and as at December 31, 2017, US\$4.6 billion was available under the base shelf prospectus. Offerings under the base shelf prospectus are subject to market conditions.

As at December 31, 2017, the Company is in compliance with all of the terms of its debt agreements.



## 17. 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:

|   | <b>Total</b> |
|---|--------------|
| As at December 31, 2016   | 1,847        |
| Liabilities Incurred  | 20           |
| Liabilities Acquired (Note 4) <sup>(1)</sup>                      | 944          |
| Liabilities Settled   | (70)         |
| Liabilities Divested <sup>(1)</sup>                               | (139)        |
| Transfers to Liabilities Related to Assets Held for Sale (Note 9) | (1,621)      |
| Change in Estimated Future Cash Flows                             | (155)        |
| Change in Discount Rate   | 76           |
| Unwinding of Discount on Decommissioning Liabilities              | 128          |
| Foreign Currency Translation                                      | (1)          |
| <b>As at December 31, 2017</b>                                    | <b>1,029</b> |

(1) In connection with the Acquisition, Cenovus was deemed to have disposed of its pre-existing interest in FCCL and reacquired it at fair value as required by IFRS.

The undiscounted amount of estimated future cash flows required to settle the obligation has been discounted using a credit-adjusted risk-free rate of 5.3 percent as at December 31, 2017 (December 31, 2016 – 5.9 percent).

## 18. OTHER LIABILITIES

| As at December 31,                             | 2017       | 2016       |
|--|------------|------------|
| Employee Long-Term Incentives                  | 43         | 72         |
| Pension and Other Post-Employment Benefit Plan | 62         | 71         |
| Onerous Contract Provisions                    | 37         | 35         |
| Other  | 31         | 33         |
|  | <b>173</b> | <b>211</b> |

## 19. SHARE CAPITAL

### A) Authorized

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

### B) Issued and Outstanding

| As at December 31,                                  | 2017   |               | 2016   |              |
|---|--|---------------|--|--------------|
|   | Number of<br>Common<br>Shares<br>(thousands) | Amount        | Number of<br>Common<br>Shares<br>(thousands) | Amount       |
| Outstanding, Beginning of Year                      | 833,290                                      | 5,534         | 833,290                                      | 5,534        |
| Common Shares Issued, Net of Issuance Costs and Tax | 187,500                                      | 2,927         | -  | -            |
| Common Shares Issued to ConocoPhillips (Note 4)     | 208,000                                      | 2,579         | -  | -            |
| <b>Outstanding, End of Year</b>                     | <b>1,228,790</b>                             | <b>11,040</b> | <b>833,290</b>                               | <b>5,534</b> |

In connection with the Acquisition (see Note 4), Cenovus closed a bought-deal common share financing on April 6, 2017 for 187.5 million common shares, raising gross proceeds of \$3.0 billion (\$2.9 billion net of \$101 million of share issuance costs).

In addition, the Company issued 208 million common shares to ConocoPhillips on May 17, 2017 as partial consideration for the Acquisition. In relation to the share consideration, Cenovus and ConocoPhillips entered into an investor agreement, and a registration rights agreement which, among other things, restricted ConocoPhillips from

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)  
 All amounts in \$ millions, unless otherwise indicated  
 For the period ended December 31, 2017

selling or hedging its Cenovus common shares until after November 17, 2017. ConocoPhillips is also restricted from nominating new members to Cenovus's Board of Directors and must vote its Cenovus common shares in accordance with Management's recommendations or abstain from voting until such time ConocoPhillips owns 3.5 percent or less of the then outstanding common shares of Cenovus. As at December 31, 2017, ConocoPhillips continued to hold these common shares.

There were no preferred shares outstanding as at December 31, 2017 (December 31, 2016 – \$nil).

As at December 31, 2017, there were 15 million (December 31, 2016 – 12 million) common shares available for future issuance under the stock option plan.

## 20. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

|   | Defined Benefit Pension Plan | Foreign Currency Translation Adjustment | Available for Sale Financial Assets | Total      |
|---|------------------------------|---|-------------------------------------|------------|
| As at December 31, 2015                       | (10)                         | 1,014                                   | 16                                  | 1,020      |
| Other Comprehensive Income (Loss), Before Tax | (4)                          | (106)                                   | (4)                                 | (114)      |
| Income Tax                                    | 1                            | -                                       | 3                                   | 4          |
| As at December 31, 2016                       | (13)                         | 908                                     | 15                                  | 910        |
| Other Comprehensive Income (Loss), Before Tax | 12                           | (275)                                   | (1)                                 | (264)      |
| Income Tax                                    | (3)                          | -                                       | -                                   | (3)        |
| <b>As at December 31, 2017</b>                | <b>(4)</b>                   | <b>633</b>                              | <b>14</b>                           | <b>643</b> |

## 21. STOCK-BASED COMPENSATION PLANS

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"). The following tables summarize information related to Cenovus's stock-based compensation plans:

| As at December 31, 2017 | Units Outstanding (thousands) | Units Exercisable (thousands) |
|-------------------------|-------------------------------|-------------------------------|
| NSRs                    | 42,727                        | 35,612                        |
| TSARs                   | 81                            | 81                            |
| PSUs                    | 7,018                         | -                             |
| RSUs                    | 6,785                         | -                             |
| DSUs                    | 1,440                         | 1,440                         |

  

| For the twelve months ended December 31, 2017 | Units Granted (thousands) | Units Vested and Paid Out (thousands) |
|---|---------------------------|---------------------------------------|
| NSRs  | 3,537                     | -                                     |
| PSUs  | 2,392                     | 451                                   |
| RSUs  | 3,278                     | 101                                   |
| DSUs  | 229                       | 414                                   |

Certain directors, officers or employees chose prior to December 31, 2016 to convert a portion of their remuneration, paid in the first quarter of 2017, into DSUs. The election for any particular year is irrevocable. DSUs may not be redeemed until departure from the Company. Directors also received an annual grant of DSUs.

The weighted average exercise price of NSRs and TSARs as at December 31, 2017 was \$29.40 and \$33.52, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)  
All amounts in \$ millions, unless otherwise indicated  
For the period ended December 31, 2017

The following table summarizes the stock-based compensation expense (recovery) recorded for all plans:

| For the periods ended December 31,                 | Three Months Ended |      | Twelve Months Ended |      |
|--|--------------------|------|---------------------|------|
|  | 2017               | 2016 | 2017                | 2016 |
| NSRs   | 2                  | 3    | 9                   | 15   |
| TSARs  | -                  | (1)  | -                   | (1)  |
| PSUs   | (7)                | 6    | (7)                 | 13   |
| RSUs   | -                  | 5    | 3                   | 13   |
| DSUs   | -                  | 3    | (11)                | 7    |
| <b>Stock-Based Compensation Expense (Recovery)</b> | <b>(5)</b>         | 16   | <b>(6)</b>          | 47   |
| <b>Stock-Based Compensation Costs Capitalized</b>  | <b>(2)</b>         | 4    | <b>3</b>            | 12   |
| <b>Total Stock-Based Compensation</b>              | <b>(7)</b>         | 20   | <b>(3)</b>          | 59   |

## 22. CAPITAL STRUCTURE

Cenovus's capital structure objectives remain unchanged from previous periods. Cenovus's capital structure consists of shareholders' equity plus Net Debt. Net Debt includes the Company's short-term borrowings, and the current and long-term portions of long-term debt, net of cash and cash equivalents. Cenovus conducts its business and makes decisions consistent with that of an investment grade company. The Company'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 Net Debt to Adjusted Earnings Before Interest, Taxes and DD&A ("Adjusted EBITDA") and Net Debt to Capitalization. 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 Net Debt to Adjusted EBITDA ratio of less than 2.0 times. At different points within the economic cycle, Cenovus expects this ratio may periodically be above the target. Cenovus also manages its Net Debt to Capitalization ratio to ensure compliance with the associated covenant as defined in its committed credit facility agreement.

### A) Net Debt to Adjusted EBITDA

| As at December 31,                        | 2017        | 2016        |
|---|-------------|-------------|
| Long-Term Debt                            | 9,513       | 6,332       |
| Less: Cash and Cash Equivalents           | (610)       | (3,720)     |
| Net Debt                                  | 8,903       | 2,612       |
| Net Earnings (Loss)                       | 3,366       | (545)       |
| Add (Deduct):                             |             |             |
| Finance Costs                             | 725         | 492         |
| Interest Income                           | (62)        | (52)        |
| Income Tax Expense (Recovery)             | 352         | (382)       |
| DD&A                                      | 2,030       | 1,498       |
| E&E Impairment                            | 890         | 2           |
| Unrealized (Gain) Loss on Risk Management | 729         | 554         |
| Foreign Exchange (Gain) Loss, Net         | (812)       | (198)       |
| Revaluation (Gain)                        | (2,555)     | -           |
| Re-measurement of Contingent Payment      | (138)       | -           |
| (Gain) Loss on Discontinuance             | (1,285)     | -           |
| (Gain) Loss on Divestitures of Assets     | 1           | 6           |
| Other (Income) Loss, Net                  | (5)         | 34          |
| Adjusted EBITDA <sup>(1)</sup>            | 3,236       | 1,409       |
| <b>Net Debt to Adjusted EBITDA</b>        | <b>2.8x</b> | <b>1.9x</b> |

(1) Calculated on a trailing twelve-month basis. Includes discontinued operations.

## B) Net Debt to Capitalization

| As at December 31,                | 2017          | 2016   |
|-----------------------------------|---------------|--------|
| Net Debt                          | <b>8,903</b>  | 2,612  |
| Shareholders' Equity              | <b>19,981</b> | 11,590 |
|                                   | <b>28,884</b> | 14,202 |
| <b>Net Debt to Capitalization</b> | <b>31%</b>    | 18%    |

As at December 31, 2017, Cenovus's Net Debt to Adjusted EBITDA is 2.8 times, which is above the Company's target. However, it is important to note that Adjusted EBITDA is calculated on a rolling twelve month basis and as such, only includes the financial results from the Deep Basin Assets and the additional 50 percent of FCCL for the period May 17, 2017 to December 31, 2017. Net Debt is presented as at December 31, 2017; therefore, the ratio is burdened by the debt issued to finance the Acquisition. If Adjusted EBITDA reflected a full twelve months of earnings from the acquired assets, Cenovus's Net Debt to Adjusted EBITDA ratio would be lower.

Cenovus's objective is to maintain a high level of capital discipline and manage its capital structure to help ensure sufficient liquidity through all stages of the economic cycle. To ensure financial resilience, Cenovus may, among other actions, adjust capital and operating spending, draw down on its credit facility or repay existing debt, adjust dividends paid to shareholders, purchase shares for cancellation pursuant to normal course issuer bids, issue new debt, or issue new shares.

Cenovus has in place a committed credit facility that consists of a \$1.2 billion tranche maturing on November 30, 2020 and a \$3.3 billion tranche maturing on November 30, 2021. As at December 31, 2017, no amounts were drawn on its committed credit facility. Under the committed credit facility, the Company is required to maintain a debt to capitalization ratio, as defined in the agreement, not to exceed 65 percent. The Company is well below this limit.

In addition, the Company has in place a base shelf prospectus which expires in November 2019. As at December 31, 2017, US\$4.6 billion remains available under the base shelf prospectus. Offerings under the base shelf prospectus are subject to market conditions.

As at December 31, 2017, Cenovus is in compliance with all of the terms of its debt agreements.

## 23. FINANCIAL INSTRUMENTS

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

### A) Fair Value of Non-Derivative Financial Instruments

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

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

Long-term debt is carried at amortized cost. The estimated fair values of long-term borrowings have been determined based on period-end trading prices of long-term borrowings on the secondary market (Level 2). As at December 31, 2017, the carrying value of Cenovus's debt was \$9,513 million and the fair value was \$10,061 million (December 31, 2016 carrying value – \$6,332 million, fair value – \$6,539 million).

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

|                                     | Total      |
|-------------------------------------|------------|
| As at December 31, 2016             | <b>35</b>  |
| Net Acquisition of Investments      | <b>3</b>   |
| Change in Fair Value <sup>(1)</sup> | <b>(1)</b> |
| <b>As at December 31, 2017</b>      | <b>37</b>  |

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

## B) Fair Value of Risk Management Assets and Liabilities

The Company's risk management assets and liabilities consist of crude oil swaps and options, as well as condensate and interest rate swaps. Crude oil, condensate and, if entered, natural gas contracts are recorded at their estimated fair value based on the difference between the contracted price and the period-end forward price for the same commodity, using quoted market prices or the period-end forward price for the same commodity extrapolated to the end of the term of the contract (Level 2). The fair value of interest rate swaps are calculated using external valuation models which incorporate observable market data, including interest rate yield curves (Level 2).

### Summary of Unrealized Risk Management Positions

| As at December 31,      | 2017      |              |              | 2016      |            |              |
|-------------------------|-----------|--------------|--------------|-----------|------------|--------------|
|                         | Asset     | Liability    | Net          | Asset     | Liability  | Net          |
| Crude Oil               | 63        | 1,031        | (968)        | 21        | 307        | (286)        |
| Interest Rate           | 2         | 20           | (18)         | 3         | 8          | (5)          |
| <b>Total Fair Value</b> | <b>65</b> | <b>1,051</b> | <b>(986)</b> | <b>24</b> | <b>315</b> | <b>(291)</b> |

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

| As at December 31,   | 2017         | 2016         |
|--|--------------|--------------|
| <b>Level 2 – Prices Sourced From Observable Data or Market Corroboration</b> | <b>(986)</b> | <b>(291)</b> |

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.

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

|  | 2017         | 2016         |
|--|--------------|--------------|
| Fair Value of Contracts, Beginning of Year   | (291)        | 271          |
| Fair Value of Contracts Realized During the Year <sup>(1)</sup>  | 200          | (211)        |
| Change in Fair Value of Contracts in Place at Beginning of Year and Contracts Entered Into During the Year | (929)        | (343)        |
| Unamortized Premium on Put Options   | 16           | -            |
| Unrealized Foreign Exchange Gain (Loss) on U.S. Dollar Contracts   | 18           | (8)          |
| <b>Fair Value of Contracts, End of Year</b>  | <b>(986)</b> | <b>(291)</b> |

(1) Includes a realized loss of \$33 million (2016 - \$58 million gain) related to the Conventional segment which is included in discontinued operations.

## C) Fair Value of Contingent Payment

The contingent payment is carried at fair value on the Consolidated Balance Sheets. Fair value is estimated by calculating the present value of the future expected cash flows using an option pricing model (Level 3), which assumes the probability distribution for WCS is based on the volatility of WTI options, volatility of Canadian-U.S. foreign exchange rate options and WCS futures pricing, and discounted at a credit-adjusted risk-free rate of 3.3 percent. Fair value of the contingent payment has been calculated by Cenovus's internal valuation team which consists of individuals who are knowledgeable and have experience in fair value techniques. As at December 31, 2017, the fair value of the contingent payment was estimated to be \$206 million.

As at December 31, 2017, average WCS forward pricing for the remaining term of the contingent payment is US\$35.51 per barrel or C\$44.55 per barrel. The average volatility of WTI options and the Canadian-U.S. foreign exchange rates used to value the contingent payment was 20 percent and seven percent, respectively. Changes in the following inputs to the option pricing model, with fluctuations in all other variables held constant, could have resulted in unrealized gains (losses) impacting earnings before income tax as follows:

|  | Sensitivity Range | Increase | Decrease |
|--|-------------------|----------|----------|
| WCS Forward Prices                                       | ± \$5.00 per bbl  | (167)    | 111      |
| WTI Option Volatility                                    | ± five percent    | (95)     | 85       |
| U.S. to Canadian Dollar Foreign Exchange Rate Volatility | ± five percent    | 2        | (27)     |

## D) Earnings Impact of (Gains) Losses From Risk Management Positions

| For the periods ended December 31,                               | Three Months Ended |            | Twelve Months Ended |            |
|--|--------------------|------------|---------------------|------------|
|  | 2017               | 2016       | 2017                | 2016       |
| Realized (Gain) Loss <sup>(1)</sup>                              | 233                | (11)       | 167                 | (153)      |
| Unrealized (Gain) Loss <sup>(2)</sup>                            | 654                | 114        | 729                 | 554        |
| <b>(Gain) Loss on Risk Management From Continuing Operations</b> | <b>887</b>         | <b>103</b> | <b>896</b>          | <b>401</b> |

(1) Realized gains and losses on risk management are recorded in the reportable segment to which the derivative instrument relates. Excludes realized risk management losses of \$33 million in the twelve months ended December 31, 2017 (twelve months ended December 31, 2016 – \$58 million gain) that were classified as discontinued operations.

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

## 24. RISK MANAGEMENT

Cenovus is exposed to financial risks, including market risk related to commodity prices, foreign exchange rates, interest rates as well as credit risk and liquidity risk. To manage exposure to interest rate volatility, the Company entered into interest rate swap contracts related to expected future debt issuances. As at December 31, 2017, Cenovus had a notional amount of US\$400 million in interest rate swaps. To mitigate the Company's exposure to foreign exchange rate fluctuations, the Company periodically enters into foreign exchange contracts. No foreign exchange contracts were outstanding at December 31, 2017.

### Net Fair Value of Risk Management Positions

| As at December 31, 2017                  | Notional Volumes | Terms                   | Average Price             | Fair Value Asset (Liability) |
|--|------------------|-------------------------|---------------------------|------------------------------|
| <b>Crude Oil Contracts</b>               |                  |                         |                           |                              |
| Fixed Price Contracts                    |                  |                         |                           |                              |
| Brent Fixed Price                        | 60,000 bbls/d    | January – June 2018     | US\$53.34/bbl             | (172)                        |
| WTI Fixed Price                          | 150,000 bbls/d   | January – June 2018     | US\$48.91/bbl             | (384)                        |
| WTI Fixed Price                          | 75,000 bbls/d    | July – December 2018    | US\$49.32/bbl             | (158)                        |
| Brent Put Options                        | 25,000 bbls/d    | January – June 2018     | US\$53.00/bbl             | 1                            |
| Brent Collars                            | 80,000 bbls/d    | January – June 2018     | US\$49.54 – US\$59.86/bbl | (124)                        |
| Brent Collars                            | 75,000 bbls/d    | July – December 2018    | US\$49.00 – US\$59.69/bbl | (110)                        |
| WTI Collars                              | 10,000 bbls/d    | January – June 2018     | US\$45.30 – US\$62.77/bbl | (2)                          |
| WCS Differential                         | 16,300 bbls/d    | January – March 2018    | US\$(13.11)/bbl           | 14                           |
| WCS Differential                         | 14,800 bbls/d    | April – June 2018       | US\$(14.05)/bbl           | 7                            |
| WCS Differential                         | 10,500 bbls/d    | January – December 2018 | US\$(14.52)/bbl           | 25                           |
| Other Financial Positions <sup>(1)</sup> |                  |                         |                           | (65)                         |
| Crude Oil Fair Value Position            |                  |                         |                           | (968)                        |
| <b>Interest Rate Swaps</b>               |                  |                         |                           | (18)                         |
| <b>Total Fair Value</b>                  |                  |                         |                           | <b>(986)</b>                 |

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

**Sensitivities – Risk Management Positions**

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

**Risk Management Positions in Place as at December 31, 2017**

|                              | Sensitivity Range  | Increase | Decrease |
|------------------------------|--|----------|----------|
| Crude Oil Commodity Price    | ± US\$5.00 per bbl Applied to Brent, WTI and Condensate Hedges       | (529)    | 507      |
| Crude Oil Differential Price | ± US\$2.50 per bbl Applied to Differential Hedges Tied to Production | 11       | (11)     |
| Interest Rate Swaps          | ± 50 Basis Points  | 44       | (50)     |

**25. SUPPLEMENTARY CASH FLOW INFORMATION**

The following table provides a reconciliation of cash flows arising from financing activities:

|  | Dividends Payable | Current Portion of Long-Term Debt | Long-Term Debt | Share Capital |
|--|-------------------|-----------------------------------|----------------|---------------|
| As at December 31, 2015                              | -                 | -                                 | 6,525          | 5,534         |
| Changes From Financing Cash Flows:                   |                   |                                   |                |               |
| Dividends Paid                                       | (166)             | -                                 | -              | -             |
| Non-Cash Changes:                                    |                   |                                   |                |               |
| Dividends Declared                                   | 166               | -                                 | -              | -             |
| Unrealized Foreign Exchange (Gain) Loss (Note 6)     | -                 | -                                 | (196)          | -             |
| Amortization of Debt Discounts                       | -                 | -                                 | 3              | -             |
| As at December 31, 2016                              | -                 | -                                 | 6,332          | 5,534         |
| Changes From Financing Cash Flows:                   |                   |                                   |                |               |
| Issuance of Long-Term Debt                           | -                 | -                                 | 3,842          | -             |
| Net Issuance (Repayment) of Revolving Long-Term Debt | -                 | -                                 | 32             | -             |
| Issuance of Debt Under Asset Sale Bridge Facility    | -                 | 892                               | 2,677          | -             |
| (Repayment) of Debt Under Asset Sale Bridge Facility | -                 | (900)                             | (2,700)        | -             |
| Common Shares Issued, Net of Issuance Costs          | -                 | -                                 | -              | 2,899         |
| Dividends Paid                                       | (225)             | -                                 | -              | -             |
| Non-Cash Changes:                                    |                   |                                   |                |               |
| Common Shares Issued to ConocoPhillips               | -                 | -                                 | -              | 2,579         |
| Deferred Taxes on Share Issuance Costs               | -                 | -                                 | -              | 28            |
| Dividends Declared                                   | 225               | -                                 | -              | -             |
| Unrealized Foreign Exchange (Gain) Loss              | -                 | -                                 | (697)          | -             |
| Finance Costs  | -                 | 8                                 | 28             | -             |
| Other  | -                 | -                                 | (1)            | -             |
| <b>As at December 31, 2017</b>                       | <b>-</b>          | <b>-</b>                          | <b>9,513</b>   | <b>11,040</b> |

## **26. COMMITMENTS AND CONTINGENCIES**

---

### **A) Commitments**

Cenovus has entered into various commitments in the normal course of operations primarily related to demand charges on firm transportation agreements. In addition, the Company has commitments related to its risk management program and an obligation to fund its defined benefit pension and other post-employment benefit plans. Additional information related to the Company's commitments can be found in the notes to the annual Consolidated Financial Statements for the year ended December 31, 2016.

As at December 31, 2017, total commitments were \$21.7 billion, of which \$18.3 billion were for various transportation commitments. During the twelve months ended December 31, 2017, the Company's transportation commitments decreased approximately \$8.0 billion primarily due to pipeline project cancellations, partially offset by incremental commitments included with the Acquisition and newly executed transportation agreements.

Transportation commitments include \$8.8 billion that are subject to regulatory approval or have been approved but are not yet in service (December 31, 2016 - \$19.2 billion). Terms are up to 20 years subsequent to the date of commencement and should help align the Company's future transportation requirements with its anticipated production growth.

As at December 31, 2017, there were outstanding letters of credit aggregating \$376 million issued as security for performance under certain contracts (December 31, 2016 - \$258 million).

### **B) Contingencies**

#### ***Legal Proceedings***

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

#### ***Contingent Payment***

In connection with the Acquisition, Cenovus agreed to make quarterly payments to ConocoPhillips during the five years subsequent to May 17, 2017 for quarters in which the average WCS crude oil price exceeds \$52.00 per barrel during the quarter. As at December 31, 2017, the estimated fair value of the contingent payment was \$206 million (see Note 15).