Canadian Oil Sands

Q2

SECOND QUARTER REPORT

**July 31, 2014**
**TSX: COS**

# *Canadian Oil Sands Announces Second Quarter Results and a $0.35 per Share Dividend*

*All financial figures are unaudited and in Canadian dollars unless otherwise noted.*

"This was a challenging quarter given overlapping outages on two of our three cokers; however, we are pleased that Syncrude executed the maintenance work safely and efficiently, with the final unit returning to service by early July," said Ryan Kubik, President and Chief Executive Officer. "Syncrude is now focused on a return to more stable operations and the completion of the Mildred Lake Mine Train Replacement project, which remains on budget and is on track to start up in the fourth quarter of the year."

**Highlights for the three months ended June 30, 2014:**

- Cash flow from operations for the quarter was $240 million ($0.50 per Share) compared with $340 million ($0.70 per Share) in the same quarter of 2013 as higher realized selling prices and lower current taxes partially offset the impact of lower sales volumes.
- Net income of $176 million ($0.36 per Share) was recorded for the quarter compared with $219 million ($0.45 per Share) in the second quarter of 2013. The decrease in net income reflects lower sales volumes and higher Crown royalties, partially offset by a higher realized selling price and foreign exchange gains on long-term debt in 2014 as opposed to foreign exchange losses in 2013.
- Sales volumes for the quarter averaged 77,064 barrels per day, down from 100,094 barrels per day in the comparative 2013 quarter due to an unplanned outage of Coker 8-1 and the planned turnaround of Coker 8-2.
- Operating expenses were $418 million in the second quarter of 2014 compared with $394 million the same quarter of 2013; the increase was due mainly to maintenance costs associated with the unplanned outage of Coker 8-1, higher natural gas prices, as well as an increase in the value of Syncrude's long-term incentive plans. On a per barrel basis, operating expenses in the second quarter of 2014 increased to $59.64 from $43.23 during the same period of 2013, reflecting the impact of lower sales volumes on a high proportion of fixed operating expenses.
- The Mildred Lake Mine Train Replacement project reached an estimated 94 per cent completion and is on schedule to be in service during the fourth quarter of this year.
- The Centrifuge Tailings Management project reached an estimated 85 per cent completion and is on schedule to be in service during the first half of 2015.
- COS declared a quarterly dividend of $0.35 per Share, payable on August 29, 2014 to shareholders of record on August 22, 2014.

## Highlights

| | Three Months Ended June 30 | | | | Six Months Ended June 30 | | | |
|---|---|---|---|---|---|---|---|---|
| | **2014** | | 2013 | | **2014** | | 2013 | |
| Cash flow from operations[1] ($ millions) | **$** | **240** | $ | 340 | **$** | **597** | $ | 615 |
| Per Share[1] ($/Share) | **$** | **0.50** | $ | 0.70 | **$** | **1.23** | $ | 1.27 |
| Net income ($ millions) | **$** | **176** | $ | 219 | **$** | **348** | $ | 396 |
| Per Share, Basic and Diluted ($/Share) | **$** | **0.36** | $ | 0.45 | **$** | **0.72** | $ | 0.82 |
| Sales volumes[2] | | | | | | | | |
| Total (mmbbls) | | **7.0** | | 9.1 | | **16.5** | | 17.7 |
| Daily average (bbls) | | **77,064** | | 100,094 | | **91,095** | | 97,901 |
| Realized SCO selling price ($/bbl) | **$** | **112.04** | $ | 100.90 | **$** | **108.40** | $ | 98.56 |
| West Texas Intermediate ("WTI") (average $US/bbl) | **$** | **102.99** | $ | 94.17 | **$** | **100.84** | $ | 94.26 |
| SCO premium (discount) to WTI (weighted average $/bbl) | **$** | **(0.37)** | $ | 4.69 | **$** | **(1.85)** | $ | 2.85 |
| Average foreign exchange rate ($US/$Cdn) | **$** | **0.92** | $ | 0.98 | **$** | **0.91** | $ | 0.98 |
| Operating expenses ($ millions) | **$** | **418** | $ | 394 | **$** | **863** | $ | 749 |
| Per barrel ($/bbl) | **$** | **59.64** | $ | 43.23 | **$** | **52.33** | $ | 42.24 |
| Capital expenditures ($ millions) | **$** | **321** | $ | 369 | **$** | **538** | $ | 637 |
| Dividends ($ millions) | **$** | **169** | $ | 169 | **$** | **339** | $ | 339 |
| Per Share ($/Share) | **$** | **0.35** | $ | 0.35 | **$** | **0.70** | $ | 0.70 |

*1 Cash flow from operations and cash flow from operations per Share are additional GAAP financial measures and are defined in the "Additional GAAP Financial Measures" section of our Management's Discussion and Analysis ("MD&A").*

*2 The Corporation's sales volumes differ from its production volumes due to changes in inventory, which are primarily in-transit pipeline volumes. Sales volumes are net of purchases.*

## 2014 Outlook

Canadian Oil Sands provides the following key estimates and assumptions for 2014:

- Our estimate of 2014 sales, net of crude oil purchases and transportation expense, has increased to $3,649 million, primarily reflecting a higher than expected realized selling price for the first six months of 2014.
- We have revised our Syncrude production range to 95 to 102 million barrels, reducing the top end by three million barrels to reflect actual results to the end of July, including outages on sulphur processing units. We are maintaining the single-point estimate of 100 million barrels (36.7 million barrels net to COS), which assumes Syncrude production averages about 310,000 barrels per day for the remainder of the year. That production rate is supported by the expectation of robust operating performance from Cokers 8-1 and 8-2, given their recently completed maintenance, and an efficient start-up of the Mildred Lake mine trains in the fourth quarter.
- Operating expenses are estimated at $1,680 million, or an average of $45.73 per barrel.
- Based on these assumptions, our estimated cash flow from operations has increased to $1.3 billion, or $2.76 per Share.
- We also expect net debt to remain within our targeted range of $1 billion to $2 billion at year end, coincident with the substantial completion of our major projects.

More information on the outlook is provided in our MD&A and the July 31, 2014 guidance document, which is available on our web site at www.cdnoilsands.com under "Investor Centre".

*The 2014 Outlook contains forward-looking information and users are cautioned that the actual amounts may vary from the estimates disclosed. Please refer to the "Forward-Looking Information Advisory" in the MD&A section of this report for the risks and assumptions underlying this forward-looking information.*

## Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") was prepared as of July 31, 2014 and should be read in conjunction with the unaudited consolidated financial statements and notes thereto of Canadian Oil Sands Limited (the "Corporation") for the three and six months ended June 30, 2014 and June 30, 2013, the audited consolidated financial statements and MD&A of the Corporation for the year ended December 31, 2013 and the Corporation's Annual Information Form ("AIF") dated February 20, 2014. Additional information on the Corporation, including its AIF, is available on SEDAR at **www.sedar.com** or on the Corporation's website at **www.cdnoilsands.com.** References to "Canadian Oil Sands", "COS" or "we" include the Corporation, its subsidiaries and partnerships. The financial results of Canadian Oil Sands have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") and are reported in Canadian dollars, unless otherwise noted.

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### Advisories

**Forward-Looking Information**

*In the interest of providing the Corporation's shareholders and potential investors with information regarding the Corporation, including management's assessment of the Corporation's future production and cost estimates, plans and operations, certain statements throughout this MD&A and the related press release contain "forward-looking information" under applicable securities law. Forward-looking statements are typically identified by words such as "anticipate", "expect", "believe", "plan", "intend" or similar words suggesting future outcomes.*

*Forward-looking statements in this MD&A and the related press release include, but are not limited to, statements with respect to: the expectations regarding the 2014 annual Syncrude forecasted production range of 95 million barrels to 102 million barrels and the single-point Syncrude production estimate of 100 million barrels (36.7 million barrels net to the Corporation); the intention to fund the Syncrude major projects primarily with cash flow from operations; the establishment of future dividend levels with the intent of absorbing short-term market volatility over several quarters; the expected sales, operating expenses, purchased energy costs, development expenses, Crown royalties, capital expenditures and cash flow from operations for 2014; the anticipated amount of current taxes in 2014; expectations regarding the Corporation's cash levels for 2014; the expected price for crude oil and natural gas in 2014; the expected foreign exchange rates in 2014; the expected realized selling price, which includes the anticipated differential to West Texas Intermediate ("WTI") to be received in 2014 for the Corporation's product; the expectations regarding net debt; the anticipated impact of increases or decreases in oil prices, production, operating expenses, foreign exchange rates and natural gas prices on the Corporation's cash flow from operations; the belief that fluctuations in the Corporation's realized selling prices, U.S. to Canadian dollar exchange rate fluctuations, planned and unplanned maintenance activities, changes in bitumen values, changes in natural gas prices and current taxes may impact the Corporation's financial results in the future; the expectation that the major projects will be substantially complete by the end of 2014, reducing future capital expenditures and increasing future Crown royalties and net* *finance expenses; the expected amount of total major project costs, anticipated target in-service dates and estimated completion percentages for the Mildred Lake mine train replacements and the centrifuge plant at the Mildred Lake mine; the cost estimates for 2014 and 2015 major project spending; the estimate that regular maintenance capital costs for the next few years should be similar to 2014; and the estimate of prospective resources impacted by the exercise of the option on a portion of Leases 29 and 31 by certain third parties.*

*You are cautioned not to place undue reliance on forward-looking statements, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will not occur. Although the Corporation believes that the expectations represented by such forward-looking statements are reasonable and reflect the current views of the Corporation with respect to future events, there can be no assurance that such assumptions and expectations will prove to be correct.*

*The factors or assumptions on which the forward-looking information is based include, but are not limited to: the assumptions outlined in the Corporation's guidance document as posted on the Corporation's website at* ***www.cdnoilsands.com*** *as of July 31, 2014 and as subsequently amended or replaced from time to time, including without limitation, the assumptions as to production, operating expenses and oil prices; the successful and timely implementation of capital projects; Syncrude's major project spending plans; the ability to obtain regulatory and Syncrude joint venture owner approval; our ability to either generate sufficient cash flow from operations to meet our current and future obligations or obtain external sources of debt and equity capital; the continuation of assumed tax, royalty and regulatory regimes and the accuracy of the estimates of our reserves and resources volumes.*

*Some of the risks and other factors which could cause actual results or events to differ materially from current expectations expressed in the forward-looking statements contained in this MD&A and the related press release include, but are not limited to: volatility of crude oil prices; volatility of the synthetic crude oil ("SCO") to WTI differential; the impact that pipeline capacity and apportionment and refinery demand have on prices for SCO and the ability to deliver SCO; the impacts of regulatory changes especially those which relate to royalties, taxation, tailings, water and the environment; the impact of new technologies on the cost of oil sands mining; the impacts of rising costs associated with tailings and water management; the inability of Syncrude to obtain required consents, permits or approvals, including without limitation, the inability of Syncrude to obtain approval to release water from its operations; the impact of Syncrude being unable to meet the conditions of its approval for its tailings management plan under Directive 074; various events which could disrupt operations including fires, equipment failures and severe weather; unsuccessful or untimely implementation of capital or maintenance projects; the impact of technology on operations and processes and how new complex technology may not perform as expected; the obtaining of required owner approvals from the Syncrude owners for expansions, operational issues and contractual issues; labour turnover and shortages and the productivity achieved from labour in the Fort McMurray area; uncertainty of estimates with respect to reserves and resources; the supply and demand metrics for oil and natural gas; currency and interest rate fluctuations; volatility of natural gas prices; the Corporation's ability to either generate sufficient cash flow from operations to meet its current and future obligations or obtain external sources of debt and equity capital; the inability of the Corporation to continue to meet the listing requirements of the Toronto Stock Exchange; general economic, business and market conditions and such other risks and uncertainties described in the Corporation's AIF dated February 20, 2014 and in the reports and filings made with securities regulatory authorities from time to time by the Corporation which are available on the Corporation's profile on SEDAR at* ***www.sedar.com*** *and on the Corporation's website at* ***www.cdnoilsands.com****.*

*You are cautioned that the foregoing list of important factors is not exhaustive. Furthermore, the forward-looking statements contained in this MD&A and the related press release are made as of July 31, 2014, and unless required by law, the Corporation does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise. The forward-looking statements contained in this MD&A and the related press release are expressly qualified by this cautionary statement.*

**Additional GAAP Financial Measures**

*In this MD&A and the related press release, we refer to additional GAAP financial measures that do not have any standardized meaning as prescribed by Canadian GAAP. Additional GAAP financial measures are line items, headings or subtotals in addition to those required under Canadian GAAP, and financial measures disclosed in the notes to the financial statements which are relevant to an understanding of the financial statements and are not presented elsewhere in the financial statements. These measures have been described and presented in order to provide shareholders and potential investors with additional measures for analyzing our ability to generate funds to finance our operations and information regarding our liquidity. Users are cautioned that additional GAAP financial measures presented by the Corporation may not be comparable with measures provided by other entities.*

*Additional GAAP financial measures include: cash flow from operations, cash flow from operations per Share, net debt, total net capitalization, total capitalization, net debt-to-total net capitalization and long-term debt-to-total capitalization.*

*Cash flow from operations is calculated as cash from operating activities before changes in non-cash working capital. Cash flow from operations per Share is calculated as cash flow from operations divided by the weighted-average number of Shares outstanding in the period. Because cash flow from operations and cash flow from operations per Share are not impacted by fluctuations in non-cash working capital balances, we believe these measures are more indicative of operational performance than cash from operating activities. With the exception of current taxes, liabilities for Crown royalties and the current portion of our asset retirement obligation, our non-cash working capital is liquid and typically settles within 30 days.*

*Cash flow from operations is reconciled to cash from operating activities as follows:*

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| *($ millions)* | **2014** | **2013** | **2014** | **2013** |
| Cash flow from operations[1] | **$ 240** | **$ 340** | **$ 597** | $ 615 |
| Change in non-cash working capital[1] | **30** | **121** | **(449)** | 175 |
| Cash from (used in) operating activities[1] | **$ 270** | **$ 461** | **$ 148** | $ 790 |

*[1] As reported in the Consolidated Statements of Cash Flows.*

*Net debt, total net capitalization, total capitalization, net debt-to-total net capitalization and long-term debt-to-total capitalization are used by the Corporation to analyze liquidity and manage capital, as discussed in the "Liquidity and Capital Resources" section of this MD&A and in Note 12 to the unaudited consolidated financial statements for the three and six months ended June 30, 2014.*

## Overview

During the second quarter of 2014, Syncrude performed a scheduled turnaround on Coker 8-2 and had an unplanned outage on Coker 8-1 to remove coke deposits. Both cokers were off-line concurrently for a period during the second quarter while Syncrude performed the necessary work. Syncrude's production was 18.5 million barrels during the second quarter of 2014, in line with our revised April 30, 2014 guidance, but lower relative to 2013 mainly as a result of the additional maintenance activities relating to the cokers.

Commodity prices have remained strong with WTI averaging approximately U.S. $103 per barrel for the second quarter of 2014. Canadian Oil Sands' sales benefited from both the strong commodity prices and a weaker Canadian dollar, resulting in a better than expected realized selling price of $112 per barrel for the second quarter and $108 per barrel on a year-to-date basis.

Syncrude's two remaining major capital projects are progressing as planned and are on time and budget. As at June 30, 2014 the Mildred Lake Mine Train Replacement project is estimated to be 94 per cent complete and the Centrifuge Tailings Management project is estimated to be 85 per cent complete. The new Mildred Lake mine trains are expected to begin operations in the fourth quarter of 2014 and the Centrifuge Tailings Management project is expected to be in service in the first half of 2015.

We have revised our 2014 Outlook and increased our estimated 2014 cash flow from operations by approximately $150 million to $1.3 billion. This reflects a higher estimated realized selling price of $99 per barrel for 2014. We have revised our Syncrude production range to 95 to 102 million barrels, reducing the top end by three million barrels to reflect actual results to the end of July, including outages on sulphur processing units. We are maintaining the single-point estimate of 100 million barrels (36.7 million barrels net to COS), which assumes Syncrude production averages about 310,000 barrels per day for the remainder of the year. That production rate is supported by the expectation of robust operating performance from Cokers 8-1 and 8-2, given their recently completed maintenance, and an efficient start-up of the Mildred Lake mine trains in the fourth quarter.

### Highlights

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| Cash flow from operations[1] ($ millions) | **$ 240** | $ 340 | **$ 597** | $ 615 |
| Per Share[1] | **$ 0.50** | $ 0.70 | **$ 1.23** | $ 1.27 |
| Net income ($ millions) | **$ 176** | $ 219 | **$ 348** | $ 396 |
| Per Share, Basic and Diluted | **$ 0.36** | $ 0.45 | **$ 0.72** | $ 0.82 |
| Sales volumes[2] | | | | |
| Total (mmbbls) | **7.0** | 9.1 | **16.5** | 17.7 |
| Daily average (bbls) | **77,064** | 100,094 | **91,095** | 97,901 |
| Realized SCO selling price ($/bbl) | **$ 112.04** | $ 100.90 | **$ 108.40** | $ 98.56 |
| West Texas Intermediate ("WTI") (average $US/bbl) | **$ 102.99** | $ 94.17 | **$ 100.84** | $ 94.26 |
| SCO premium (discount) to WTI (weighted average $/bbl) | **$ (0.37)** | $ 4.69 | **$ (1.85)** | $ 2.85 |
| Average foreign exchange rate ($US/$Cdn) | **$ 0.92** | $ 0.98 | **$ 0.91** | $ 0.98 |
| Operating expenses ($ millions) | **$ 418** | $ 394 | **$ 863** | $ 749 |
| Per barrel ($/bbl) | **$ 59.64** | $ 43.23 | **$ 52.33** | $ 42.24 |
| Capital expenditures ($ millions) | **$ 321** | $ 369 | **$ 538** | $ 637 |
| Dividends ($ millions) | **$ 169** | $ 169 | **$ 339** | $ 339 |
| Per Share ($/Share) | **$ 0.35** | $ 0.35 | **$ 0.70** | $ 0.70 |

*[1] Cash flow from operations and cash flow from operations per Share are additional GAAP financial measures and are defined in the "Additional GAAP Financial Measures" section of this MD&A.*

*[2] The Corporation's sales volumes differ from its production volumes due to changes in inventory, which are primarily in-transit pipeline volumes. Sales volumes are net of purchases.*

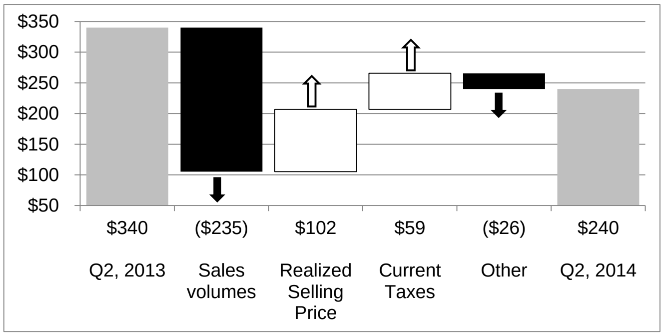
## Review of Operations

During the second quarter of 2014 Syncrude produced 18.5 million barrels, or 202,500 barrels per day, compared to 24.8 million barrels, or 273,100 barrels per day in the second quarter of 2013. On a year-to-date basis, Syncrude produced 44.8 million barrels, or 247,200 barrels per day, in 2014 compared with 48.3 million barrels, or 266,800 barrels per day, in 2013. The decrease in Syncrude production in 2014 is primarily due to the unplanned Coker 8-1 outage and the planned Coker 8-2 turnaround.

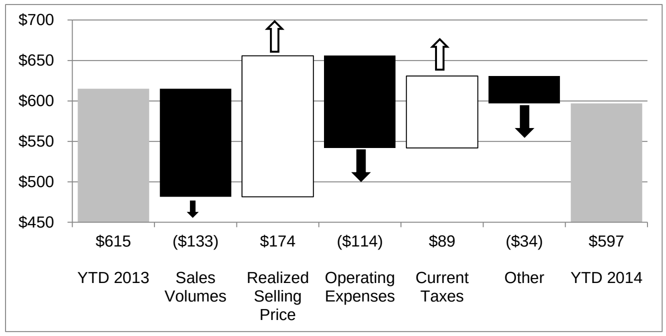
## Review of Financial Results

### Cash Flow from Operations

**Quarter vs Quarter** *($ millions)*




**Year-to-Date vs Year-to-Date** *($ millions)*




In the second quarter of 2014, cash flow from operations was $240 million, or $0.50 per Share, compared with $340 million, or $0.70 per Share, in the second quarter of 2013 as a result of lower sales volumes partially offset by a higher realized selling price and lower current taxes.

On a year-to-date basis, cash flow from operations decreased to $597 million, or $1.23 per Share, in 2014 from $615 million, or $1.27 per Share, in 2013 as a result of lower sales volumes, higher operating expenses and higher Crown royalties partially offset by a higher realized selling price and lower current taxes.

The changes in the components of cash flow from operations are discussed in greater detail later in this MD&A.

**Net Income**

Canadian Oil Sands reported net income of $176 million, or $0.36 per Share, in the second quarter of 2014 compared with $219 million, or $0.45 per Share, in the second quarter of 2013 as a result of lower sales volumes and higher Crown royalties partially offset by a higher realized selling price and foreign exchange gains in 2014 as opposed to foreign exchange losses in 2013.

On a year-to-date basis, net income decreased to $348 million, or $0.72 per Share, in 2014 from $396 million, or $0.82 per Share, in 2013 due to lower sales volumes, higher operating expenses and higher Crown royalties partially offset by a higher realized selling price and lower foreign exchange losses.

The changes in the components of net income are discussed in greater detail later in this MD&A.

The following table shows net income components per barrel of SCO.

| | Three Months Ended June 30 | | | Six Months Ended June 30 | | |
|---|---|---|---|---|---|---|
| *($ per barrel)*[1] | **2014** | **2013** | **Change** | **2014** | **2013** | **Change** |
| Sales net of crude oil purchases and transportation expense | **$ 112.06** | $ 100.96 | $ 11.10 | **$ 108.03** | $ 98.63 | $ 9.40 |
| Operating expense | **(59.64)** | (43.23) | (16.41) | **(52.33)** | (42.24) | (10.09) |
| Crown royalties | **(5.78)** | (3.03) | (2.75) | **(5.98)** | (2.86) | (3.12) |
| | **$ 46.64** | $ 54.70 | $ (8.06) | **$ 49.72** | $ 53.53 | $ (3.81) |
| Development expense | **$ (4.47)** | $ (4.16) | $ (0.31) | **$ (3.86)** | $ (3.58) | $ (0.28) |
| Administration and insurance expenses | **(1.38)** | (0.87) | (0.51) | **(1.59)** | (1.31) | (0.28) |
| Depreciation and depletion expense | **(15.97)** | (11.26) | (4.71) | **(14.59)** | (12.68) | (1.91) |
| Net finance expense | **(1.63)** | (1.30) | (0.33) | **(1.51)** | (1.43) | (0.08) |
| Foreign exchange gain (loss) | **7.11** | (4.99) | 12.10 | **(0.29)** | (4.13) | 3.84 |
| Tax expense | **(5.06)** | (8.03) | 2.97 | **(6.72)** | (7.99) | 1.27 |
| | **(21.40)** | (30.61) | 9.21 | **(28.56)** | (31.12) | 2.56 |
| Net income per barrel | **$ 25.24** | $ 24.09 | $ 1.15 | **$ 21.16** | $ 22.41 | $ (1.25) |
| Sales volumes (mmbbls)[2] | **7.0** | 9.1 | (2.1) | **16.5** | 17.7 | (1.2) |

[1] *Per barrel measures derived by dividing the relevant item by sales volumes in the period.*
[2] *Sales volumes, net of purchased crude oil volumes.*

Net income components on a per barrel basis reflect the items noted above and lower sales volumes in 2014 relative to 2013.

### Sales Net of Crude Oil Purchases and Transportation Expense

| ($ millions, except where otherwise noted) | Three Months Ended June 30 2014 | 2013 | Change | Six Months Ended June 30 2014 | 2013 | Change |
|---|---|---|---|---|---|---|
| Sales[1] | **$ 941** | $ 1,036 | $ (95) | **$ 2,055** | $ 1,997 | $ 58 |
| Crude oil purchases | **(141)** | (101) | (40) | **(246)** | (224) | (22) |
| Transportation expense | **(14)** | (14) | - | **(28)** | (24) | (4) |
| | **$ 786** | $ 921 | $ (135) | **$ 1,781** | $ 1,749 | $ 32 |
| Sales volumes[2] | | | | | | |
| Total (mmbbls) | **7.0** | 9.1 | (2.1) | **16.5** | 17.7 | (1.2) |
| Daily average (bbls) | **77,064** | 100,094 | (23,030) | **91,095** | 97,901 | (6,806) |
| Realized SCO selling price[3] (average $Cdn/bbl) | **$ 112.04** | $ 100.90 | $ 11.14 | **$ 108.40** | $ 98.56 | $ 9.84 |
| West Texas Intermediate ("WTI") (average $US/bbl) | **$ 102.99** | $ 94.17 | $ 8.82 | **$ 100.84** | $ 94.26 | $ 6.58 |
| SCO premium (discount) to WTI (weighted-average $Cdn/bbl) | **$ (0.37)** | $ 4.69 | $ (5.06) | **$ (1.85)** | $ 2.85 | $ (4.70) |
| Average foreign exchange rate ($US/$Cdn) | **$ 0.92** | $ 0.98 | $ (0.06) | **$ 0.91** | $ 0.98 | $ (0.07) |

*[1] Sales include sales of purchased crude oil and sulphur.*
*[2] Sales volumes, net of purchased crude oil volumes.*
*[3] SCO sales net of crude oil purchases and transportation expense divided by sales volumes, net of purchased crude oil volumes.*

The $135 million, or 15 per cent, decrease in 2014 second quarter sales, net of crude oil purchases and transportation expense, reflects lower sales volumes partially offset by a higher realized selling price relative to the 2013 second quarter.

- Sales volumes in the second quarter of 2014 averaged 77,100 barrels per day, down from 100,100 barrels per day in the comparative 2013 quarter mainly reflecting the planned turnaround of Coker 8-2 and the unplanned Coker 8-1 outage.
- The second quarter 2014 realized selling price increased by $11.14 per barrel, reflecting a stronger WTI price and a weaker average Canadian dollar during the quarter, partially offset by a weaker SCO differential to WTI.

The $32 million increase in year-to-date sales, net of crude oil purchases and transportation expense, reflects lower sales volumes and a higher realized selling price relative to 2013.

- Sales volumes in the first half of 2014 averaged 91,100 barrels per day, down from 97,900 barrels per day in the comparative 2013 period mainly due to the planned turnaround of Coker 8-2 and the unplanned Coker 8-1 outage during the second quarter of 2014.
- The year-to-date 2014 realized selling price increased by $9.84 per barrel. Similar to the quarterly results, this reflects a stronger WTI price and a weaker average Canadian dollar in the first half of the year, partially offset by a deterioration in the SCO differential to WTI.

Canadian Oil Sands purchases crude oil from third parties to fulfill sales commitments with customers when there are shortfalls in Syncrude's production and to facilitate certain transportation arrangements. Sales include the sale of purchased crude oil while the cost of these purchases is included in crude oil purchases and transportation expense. The increased cost of crude oil purchases in 2014 reflects increased commodity prices.

**Operating Expenses**

The following table shows the major components of operating expenses in total dollars and per barrel of SCO:

| | Three Months Ended June 30 | | | | Six Months Ended June 30 | | | |
|---|---|---|---|---|---|---|---|---|
| | 2014 | | 2013 | | 2014 | | 2013 | |
| | $ millions | $ per bbl | $ millions | $ per bbl | $ millions | $ per bbl | $ millions | $ per bbl |
| Production and maintenance[1] | **$ 335** | **$ 47.81** | $ 327 | $ 35.90 | **$ 667** | **$ 40.47** | $ 609 | $ 34.34 |
| Natural gas and diesel purchases[2] | **44** | **6.30** | 38 | 4.22 | **116** | **7.00** | 83 | 4.66 |
| Syncrude pension and incentive compensation | **28** | **3.96** | 19 | 2.05 | **57** | **3.48** | 40 | 2.27 |
| Other[3] | **11** | **1.57** | 10 | 1.06 | **23** | **1.38** | 17 | 0.97 |
| Total operating expenses | **$ 418** | **$ 59.64** | $ 394 | $ 43.23 | **$ 863** | **$ 52.33** | $ 749 | $ 42.24 |

[1] *Includes non-major turnaround costs. Major turnaround costs are capitalized as property, plant and equipment.*
[2] *Includes costs to purchase natural gas used to produce energy and hydrogen and diesel consumed as fuel.*
[3] *Includes fees for management services provided by Imperial Oil Resources, insurance premiums, and greenhouse gas emissions levies.*

The increase in second quarter operating expenses over the comparative quarter was due mainly to maintenance costs for the unplanned Coker 8-1 outage, higher natural gas prices and an increase in the value of Syncrude's long-term incentive plans.

On a year-to-date basis, operating expenses increased by $114 million due to the maintenance costs for the unplanned Coker 8-1 outage, higher drilling and tailings management activities during the first quarter of 2014, higher natural gas prices and an increase in the value of Syncrude's long-term incentive plans. A portion of Syncrude's long-term incentive compensation is based on the market return of certain Syncrude owners' shares, the returns on which have been stronger in the first half of 2014 compared to 2013.

The increase in per barrel operating expenses on a quarterly and year-to-date basis reflects a relatively high proportion of fixed operating expenses over sales volumes that were lower in 2014 relative to 2013.

The following table shows operating expenses per barrel of bitumen and SCO. Costs are allocated to bitumen production and upgrading on the basis used to determine Crown royalties.

| | Three Months Ended June 30 | | | | Six Months Ended June 30 | | | |
|---|---|---|---|---|---|---|---|---|
| | 2014 | | 2013 | | 2014 | | 2013 | |
| *($ per barrel)* | Bitumen | SCO | Bitumen | SCO | Bitumen | SCO | Bitumen | SCO |
| Bitumen production | **$ 32.44** | **$ 40.52** | $ 28.13 | $ 32.26 | **$ 30.91** | **$ 37.53** | $ 27.28 | $ 32.31 |
| Internal fuel allocation[1] | **3.38** | **4.23** | 2.68 | 3.07 | **3.22** | **3.91** | 2.67 | 3.16 |
| Total bitumen production expenses | **$ 35.82** | **$ 44.75** | $ 30.81 | $ 35.33 | **$ 34.13** | **$ 41.44** | $ 29.95 | $ 35.47 |
| Upgrading[2] | | **$ 19.12** | | $ 10.97 | | **$ 14.80** | | $ 9.93 |
| Less: internal fuel allocation[1] | | **(4.23)** | | (3.07) | | **(3.91)** | | (3.16) |
| Total upgrading expenses | | **$ 14.89** | | $ 7.90 | | **$ 10.89** | | $ 6.77 |
| Total operating expenses | | **$ 59.64** | | $ 43.23 | | **$ 52.33** | | $ 42.24 |
| *(thousands of barrels per day)* | | | | | | | | |
| Syncrude production volumes | **253** | **202** | 313 | 273 | **300** | **247** | 316 | 267 |
| Canadian Oil Sands sales volumes | | **77** | | 100 | | **91** | | 98 |

[1] *Reflects energy generated by the upgrader that is used in the bitumen production process and is valued by reference to natural gas and diesel prices. Natural gas prices averaged $4.45 per GJ and $4.98 per GJ in the three and six months ended June 30, 2014, respectively, and $3.41 per GJ and $3.20 per GJ in the three and six months ended June 30, 2013, respectively. Diesel prices averaged $1.03 per litre and $1.06 per litre in the three and six months ended June 30, 2014, respectively, and $0.87 per litre and $0.89 per litre in the three and six months ended June 30, 2013, respectively.*
[2] *Upgrading expenses include the production and maintenance expenses associated with processing and upgrading bitumen to SCO.*

**Crown Royalties**

Crown royalties increased to $41 million, or $5.78 per barrel in the second quarter of 2014, from $28 million, or $3.03 per barrel, in the second quarter of 2013. On a year-to-date basis, Crown royalties increased to $99 million, or $5.98 per barrel in 2014 from $51 million, or $2.86 per barrel, in the comparative 2013 period. The increases in both the quarterly and year-to-date Crown royalties reflect higher deemed bitumen prices used to calculate Crown royalties and lower deductible capital expenditures, partially offset by lower bitumen production volumes.

**Net Finance Expense**

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| *($ millions)* | **2014** | 2013 | **2014** | 2013 |
| Interest costs on long-term debt | **$ 29** | $ 34 | **$ 59** | $ 65 |
| Less capitalized interest on long-term debt | **(28)** | (28) | **(52)** | (51) |
| Interest expense on long-term debt | **$ 1** | $ 6 | **$ 7** | $ 14 |
| Interest expense on employee future benefits | **4** | 4 | **7** | 8 |
| Accretion of asset retirement obligation | **7** | 6 | **14** | 12 |
| Interest income | **(1)** | (3) | **(3)** | (8) |
| Net finance expense | **$ 11** | $ 13 | **$ 25** | $ 26 |

Interest costs on the Corporation's U.S. dollar-denominated long-term debt reflect lower average outstanding debt levels in the first half of 2014 due to a U.S. $300 million debt repayment in August, 2013, partially offset by a weaker Canadian dollar relative to the first half of 2013.

**Foreign Exchange (Gain) Loss**

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| *($ millions)* | **2014** | 2013 | **2014** | 2013 |
| Foreign exchange (gain) loss – long-term debt | **$ (57)** | $ 65 | **$ 6** | $ 102 |
| Foreign exchange (gain) loss – other | **8** | (20) | **(1)** | (29) |
| Total foreign exchange (gain) loss | **$ (49)** | $ 45 | **$ 5** | $ 73 |

Foreign exchange gains and losses are the result of revaluations of the Corporation's U.S. dollar-denominated long-term debt, accounts receivable and cash into Canadian dollars.

The $US/$Cdn exchange rate was $0.94 at June 30, 2014 versus $0.91 at March 31, 2014 and $0.94 at December 31, 2013. The change in exchange rates generated a $57 million foreign exchange gain on long-term debt in the second quarter of 2014 which mostly offset a $63 million foreign exchange loss on long-term debt recorded in the first quarter of 2014.

The $US/$Cdn exchange rate was $0.95 at June 30, 2013 versus $0.98 at March 31, 2013 and $1.01 at December 31, 2012. The change in exchange rates generated foreign exchange losses on long-term debt in 2013 of $65 million for the second quarter and $102 million on a year-to-date basis.

**Tax Expense**

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| *($ millions)* | **2014** | 2013 | **2014** | 2013 |
| Current tax expense | **$ 31** | $ 90 | **$ 91** | $ 180 |
| Deferred tax expense (recovery) | **5** | (16) | **20** | (38) |
| Total tax expense | **$ 36** | $ 74 | **$ 111** | $ 142 |

Current tax expense decreased in 2014 due to changes in the timing and the amount of taxable income generated by the Corporation's partnership. Lower total tax expense in 2014 reflects lower year-to-date net income before taxes in 2014 compared with 2013.

### Asset Retirement Obligation

| ($ millions) | Six Months Ended June 30 2014 | Year Ended December 31 2013 |
|---|---|---|
| Asset retirement obligation, beginning of period | **$ 896** | $ 1,102 |
| (Increase) decrease in risk-free interest rate | **103** | (217) |
| Reclamation expenditures | **(17)** | (42) |
| Increase (decrease) in estimated reclamation and closure expenditures | **(14)** | 27 |
| Accretion expense | **14** | 26 |
| Asset retirement obligation, end of period | **$ 982** | $ 896 |
| Less current portion | **(28)** | (28) |
| Non-current portion | **$ 954** | $ 868 |

Canadian Oil Sands' asset retirement obligation increased from $896 million at December 31, 2013 to $982 million at June 30, 2014 primarily due to a decrease in the interest rate used to discount future reclamation and closure expenditures from 3.25 per cent at December 31, 2013 to 2.75 per cent at June 30, 2014.

### Pension and Other Post-Employment Benefit Plans

| ($ millions) | Six Months Ended June 30 2014 | Year Ended December 31 2013 |
|---|---|---|
| Accrued benefit liability, beginning of period | **$ 308** | $ 438 |
| Current service cost | **22** | 45 |
| Interest expense | **7** | 16 |
| Contributions | **(33)** | (109) |
| Re-measurement (gains) losses: | | |
| Actual return on plan assets in excess of estimated return[1] | **(53)** | (46) |
| Increase in discount rate | **-** | (91) |
| Other[2] | **(3)** | 55 |
| Accrued benefit liability, end of period | **$ 248** | $ 308 |
| Less current portion | **(20)** | (82) |
| Non-current portion | **$ 228** | $ 226 |

*[1] Estimated return is based on prescribed 4.5 per cent annualized rate.*
*[2] The other re-measurement loss in 2013 reflects an increase in the estimated average lifespan of the plans' beneficiaries as a result of new actuarial standards.*

The Corporation's obligation for Syncrude Canada Ltd.'s ("Syncrude Canada") pension and other post-employment benefits in excess of the fair value of the assets held in the benefit plans (the "accrued benefit liability") decreased to $248 million at June 30, 2014 from $308 million at December 31, 2013 as actual returns on plan assets were higher than expected.

## Summary of Quarterly Results

| | 2014 | | 2013 | | | | 2012[6] | |
|---|---|---|---|---|---|---|---|---|
| | **Q2** | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 |
| Sales[1] ($ millions) | **$ 786** | $ 995 | $ 945 | $ 871 | $ 921 | $ 828 | $ 929 | $ 941 |
| Net income ($ millions) | **$ 176** | $ 172 | $ 192 | $ 246 | $ 219 | $ 177 | $ 218 | $ 336 |
| Per Share, Basic & Diluted | **$ 0.36** | $ 0.35 | $ 0.40 | $ 0.51 | $ 0.45 | $ 0.37 | $ 0.45 | $ 0.69 |
| Cash flow from operations[2] ($ millions) | **$ 240** | $ 357 | $ 392 | $ 339 | $ 340 | $ 275 | $ 418 | $ 470 |
| Per Share[2] | **$ 0.50** | $ 0.74 | $ 0.81 | $ 0.70 | $ 0.70 | $ 0.57 | $ 0.86 | $ 0.97 |
| Dividends ($ millions) | **$ 169** | $ 170 | $ 169 | $ 170 | $ 169 | $ 170 | $ 169 | $ 170 |
| Per Share | **$ 0.35** | $ 0.35 | $ 0.35 | $ 0.35 | $ 0.35 | $ 0.35 | $ 0.35 | $ 0.35 |
| Daily average sales volumes[3] (bbls) | **77,064** | 105,283 | 112,092 | 84,250 | 100,094 | 95,683 | 111,669 | 113,331 |
| Realized SCO selling price ($/bbl) | **$ 112.04** | $ 105.73 | $ 91.47 | $ 112.55 | $ 100.90 | $ 96.11 | $ 89.99 | $ 89.89 |
| WTI[4] (average $US/bbl) | **$ 102.99** | $ 98.61 | $ 97.61 | $ 105.81 | $ 94.17 | $ 94.36 | $ 88.23 | $ 92.20 |
| SCO premium (discount) to WTI (weighted-average $/bbl) | **$ (0.37)** | $ (2.93) | $ (10.84) | $ 2.63 | $ 4.79 | $ 1.00 | $ 2.52 | $ (2.00) |
| Operating expenses[5] ($/bbl) | **$ 59.64** | $ 46.91 | $ 37.60 | $ 46.15 | $ 43.23 | $ 41.20 | $ 38.76 | $ 36.07 |
| Capital expenditures ($ millions) | **$ 321** | $ 217 | $ 292 | $ 413 | $ 369 | $ 268 | $ 299 | $ 354 |
| Purchased natural gas price ($/GJ) | **$ 4.45** | $ 5.43 | $ 3.28 | $ 2.59 | $ 3.41 | $ 2.95 | $ 3.02 | $ 2.23 |
| Foreign exchange rates ($US/$Cdn) | | | | | | | | |
| Average | **$ 0.92** | $ 0.91 | $ 0.95 | $ 0.96 | $ 0.98 | $ 0.99 | $ 1.01 | $ 1.00 |
| Quarter-end | **$ 0.94** | $ 0.90 | $ 0.94 | $ 0.97 | $ 0.95 | $ 0.98 | $ 1.01 | $ 1.02 |

1 *Sales after crude oil purchases and transportation expense.*
2 *Cash flow from operations and cash flow from operations per Share are additional GAAP financial measures and are defined in the "Additional GAAP Financial Measures" section of this MD&A.*
3 *Daily average sales volumes net of crude oil purchases.*
4 *Pricing obtained from Bloomberg.*
5 *Derived from operating expenses, as reported on the Consolidated Statements of Income and Comprehensive Income, divided by sales volumes during the period.*
6 *Net income and operating expenses in 2012 have been adjusted to reflect amendments to International Accounting Standard ("IAS") 19, Employee Benefits.*

During the last eight quarters, the following items have had a significant impact on the Corporation's financial results and may impact the financial results in the future:

- Fluctuations in realized selling prices have affected the Corporation's sales. Monthly average WTI prices have ranged from U.S. $87 per barrel to U.S. $107 per barrel, and the monthly average differentials have ranged from a $10 per barrel premium to a $15 per barrel discount.
- U.S. to Canadian dollar exchange rate fluctuations have resulted in foreign exchange gains and losses on the revaluation of U.S. dollar-denominated debt and have impacted realized selling prices.
- Planned and unplanned maintenance activities have impacted quarterly production volumes, revenues, operating expenses and per barrel results.
- Changes in bitumen values have impacted Crown royalties.
- Major capital projects to replace or relocate Syncrude mine trains and to support tailings management plans have increased capital expenditures and have reduced Crown royalties over the past eight quarters. These projects are expected to be substantially complete by the end of 2014, reducing future capital expenditures and increasing future Crown royalties and net finance expenses.
- Changes in natural gas prices have impacted operating expenses.
- Current taxes have impacted cash flow from operations. Prior to 2013, tax pools sheltered the Corporation's income from significant current taxes.

## Capital Expenditures

| ($ millions) | Three Months Ended June 30 2014 | Three Months Ended June 30 2013 | Six Months Ended June 30 2014 | Six Months Ended June 30 2013 |
|---|---|---|---|---|
| **Major Projects** | | | | |
| Mildred Lake Mine Train Replacements | **$ 100** | $ 115 | **$ 188** | $ 228 |
| Centrifuge Tailings Management | **83** | 47 | **156** | 84 |
| Aurora North Mine Train Relocations | **-** | 57 | **-** | 88 |
| Aurora North Tailings Management | **-** | 32 | **-** | 45 |
| **Capital expenditures on major projects** | **$ 183** | $ 251 | **$ 344** | $ 445 |
| **Regular maintenance** | | | | |
| Capitalized turnaround costs | **66** | 19 | **69** | 21 |
| Other | **44** | 71 | **73** | 120 |
| **Capital expenditures on regular maintenance** | **$ 110** | $ 90 | **$ 142** | $ 141 |
| **Capitalized interest** | **$ 28** | $ 28 | **$ 52** | $ 51 |
| **Total capital expenditures** | **$ 321** | $ 369 | **$ 538** | $ 637 |

Capital expenditures decreased $48 million in the second quarter of 2014 and $99 million in the first half of 2014 compared with the corresponding periods in 2013. This decrease reflects the completion of the Aurora North Mine Train Relocation and Aurora North Tailings Management projects in 2013. Partially offsetting the decreases in the major project spending were higher costs for major turnarounds in 2014. In 2013, significant turnaround activities occurred mostly during the third quarter, whereas in 2014 the majority of our expected 2014 turnaround activities occurred in the second quarter.

More information on the major projects is provided in the “Outlook” section of this MD&A.

## Contractual Obligations and Commitments

Canadian Oil Sands’ contractual obligations and commitments are summarized in the 2013 annual MD&A and include future cash payments that the Corporation is required to make under existing contractual arrangements entered into directly or as a 36.74 per cent owner in Syncrude. In 2014, Canadian Oil Sands assumed $75 million in new funding commitments relating to capital projects while the Corporation’s share of payments prescribed by regulations on Syncrude Canada’s registered pension plans decreased by approximately $200 million as a result of an actuarial valuation completed in April, 2014.

## Dividends

On July 31, 2014, the Corporation declared a quarterly dividend of $0.35 per Share for a total dividend of approximately $170 million. The dividend will be paid on August 29, 2014 to shareholders of record on August 22, 2014. For the six months ended June 30, 2014, the Corporation has paid dividends to shareholders totaling $339 million, or $0.70 per Share.

Dividend payments are set quarterly by the Board of Directors in the context of current and expected crude oil prices, economic conditions, Syncrude’s operating performance and the Corporation’s capacity to finance operating and investing obligations. Dividend amounts are established with the intent of absorbing short-term market volatility over several quarters and recognize our intention to fund the current major projects primarily with cash flow from operations, while maintaining a strong balance sheet to reduce exposure to potential oil price declines, cost increases or major operational upsets.

## Other

During the second quarter of 2014, third parties exercised their option (as previously disclosed in our AIF) to acquire a portion of Leases 29 and 31. These option portions contain about 300 million barrels of COS' prospective resources. There was no impact to the financial statements as a result of the exercise of this option. By their nature, all prospective resources have a chance of discovery and development, but there is no certainty that prospective resources will be commercially viable.

## Liquidity and Capital Resources

| As at *($ millions, except % amounts)* | **June 30 2014** | December 31 2013 |
|---|---|---|
| Long-term debt[1] | **$ 1,609** | $ 1,602 |
| Cash and cash equivalents[1] | **(82)** | (806) |
| Net debt[2,3] | **$ 1,527** | $ 796 |
| Shareholders' equity[1] | **$ 4,784** | $ 4,732 |
| Total net capitalization[2,4] | **$ 6,311** | $ 5,528 |
| Total capitalization[2,5] | **$ 6,393** | $ 6,334 |
| Net debt-to-total net capitalization[2,6] (%) | **24** | 14 |
| Long-term debt-to-total capitalization[2,7] (%) | **25** | 25 |

*1 As reported in the Consolidated Balance Sheets.*
*2 Additional GAAP financial measure.*
*3 Long-term debt less cash and cash equivalents.*
*4 Net debt plus Shareholders' equity.*
*5 Long-term debt plus Shareholders' equity.*
*6 Net debt divided by total net capitalization.*
*7 Long-term debt divided by total capitalization.*

In the first six months of 2014, net debt rose $731 million to $1,527 million at June 30, 2014 as cash and cash flow from operations was used to fund capital expenditures, dividend payments and to settle existing tax and Crown royalty liabilities of approximately $500 million. Accordingly, net debt-to-total net capitalization increased to 24 per cent at June 30, 2014 from 14 per cent at December 31, 2013.

Based on the assumptions in our 2014 Outlook, we expect net debt to remain within our targeted range of $1 billion to $2 billion at year end, coincident with the substantial completion of our major projects.

Shareholders' equity increased to $4,784 million at June 30, 2014 from $4,732 million at December 31, 2013, as comprehensive income exceeded dividends.

In July 2014, Canadian Oil Sands extended the terms of its credit facilities by approximately one year. The $1,500 million credit facility was extended to June 30, 2018 and the $40 million credit facility to June 30, 2016. No amounts were drawn against these facilities at June 30, 2014 or December 31, 2013.

Canadian Oil Sands Senior Notes indentures and credit facility agreements contain certain covenants that restrict Canadian Oil Sands' ability to sell all or substantially all of its assets or change the nature of its business, and limit long-term debt-to-total capitalization to 55 per cent. Canadian Oil Sands is in compliance with its debt covenants, and with a long-term debt-to-total capitalization of 25 per cent at June 30, 2014, a significant increase in debt or decrease in equity would be required to negatively impact the Corporation's financial flexibility.

## Shareholders' Capital and Trading Activity

The Corporation's shares trade on the Toronto Stock Exchange under the symbol COS. On June 30, 2014, the Corporation had a market capitalization of approximately $11.7 billion with 484.6 million shares outstanding and a closing price of $24.18 per Share. The following table summarizes the trading activity for the second quarter of 2014.

**Canadian Oil Sands Limited – Trading Activity**

| | Second Quarter 2014 | April 2014 | May 2014 | June 2014 |
|---|---|---|---|---|
| Share price | | | | |
| High | $ 24.68 | $ 24.46 | $ 23.49 | $ 24.68 |
| Low | $ 22.31 | $ 22.47 | $ 22.31 | $ 22.58 |
| Close | $ 24.18 | $ 23.76 | $ 22.81 | $ 24.18 |
| Volume of Shares traded (millions) | 86.1 | 32.2 | 29.8 | 24.1 |
| Weighted average Shares outstanding (millions) | 484.6 | 484.6 | 484.6 | 484.6 |

## 2014 Outlook

| *(millions of Canadian dollars, except volume and per barrel amounts)* | As of July 31 2014 | As of April 30 2014 |
|---|---|---|
| **Operating assumptions** | | |
| Syncrude production (mmbbls) | 100 | 100 |
| Canadian Oil Sands sales (mmbbls) | 36.7 | 36.7 |
| Sales, net of crude oil purchases and transportation | $ 3,649 | $ 3,528 |
| Realized SCO selling price ($/bbl) | $ 99.32 | $ 96.02 |
| Operating expenses | $ 1,680 | $ 1,693 |
| Operating expenses per barrel | $ 45.73 | $ 46.08 |
| Development expenses | $ 166 | $ 176 |
| Crown royalties | $ 157 | $ 160 |
| Current taxes | $ 200 | $ 200 |
| Cash flow from operations[1] | $ 1,335 | $ 1,194 |
| **Capital expenditure assumptions** | | |
| Major projects | $ 575 | $ 575 |
| Regular maintenance | $ 292 | $ 267 |
| Capitalized interest | $ 88 | $ 86 |
| Total capital expenditures | $ 955 | $ 928 |
| **Business environment assumptions** | | |
| West Texas Intermediate (U.S.$/bbl) | $ 95.00 | $ 92.00 |
| Discount to average Cdn$ WTI (Cdn$/bbl) | $ (4.00) | $ (4.00) |
| Foreign exchange rate (U.S.$/Cdn$) | $ 0.92 | $ 0.92 |
| AECO natural gas (Cdn$/GJ) | $ 4.50 | $ 4.50 |

*[1] Cash flow from operations is an additional GAAP financial measure and is defined in the "Additional GAAP Financial Measures" section of this MD&A.*

We have increased our estimate of 2014 sales, net of crude oil purchases and transportation expense, to $3,649 million from $3,528 million, primarily reflecting a higher than expected realized selling price for the first six months of 2014.

We have revised our Syncrude production range to 95 to 102 million barrels, reducing the top end by three million barrels to reflect actual results to the end of July, including outages on sulphur processing units. We are maintaining the single-point estimate of 100 million barrels (36.7 million barrels net to COS), which assumes Syncrude production averages about 310,000 barrels per day for the remainder of the year. That production rate is supported by the expectation of robust operating performance from Cokers 8-1 and 8-2, given their recently completed maintenance, and an efficient start-up of the Mildred Lake mine trains in the fourth quarter.

Based on these assumptions, estimated 2014 cash flow from operations has risen approximately $150 million to $1.3 billion, or $2.76 per Share. We expect net debt to remain within our targeted range of $1 billion to $2 billion at year end, coincident with the substantial completion of our major projects.

Changes in certain factors and market conditions could potentially impact Canadian Oil Sands' Outlook. The following table provides a sensitivity analysis of the key factors affecting the Corporation's performance.

**Outlook Sensitivity Analysis (July 31, 2014)**

| | | Cash Flow from Operations Increase | |
|---|---|---|---|
| Variable | **Annual Sensitivity** | **$ millions**[1,2] | **$ / Share**[1,2] |
| Syncrude operating expense decrease | Cdn$1.00/bbl | $ 22 | $ 0.05 |
| Syncrude operating expense decrease | Cdn$50 million | $ 11 | $ 0.02 |
| WTI crude oil price increase | U.S.$1.00/bbl | $ 25 | $ 0.05 |
| Syncrude production increase | 2 million bbls | $ 46 | $ 0.09 |
| Canadian dollar weakening | U.S.$0.01/Cdn$ | $ 25 | $ 0.05 |
| AECO natural gas price decrease | Cdn$0.50/GJ | $ 14 | $ 0.03 |

[1] *These sensitivities are after the impact of taxes.*
[2] *These sensitivities assume Canadian Oil Sands pays Crown royalties based on net deemed bitumen revenues in 2014.*

*The 2014 Outlook contains forward-looking information and users are cautioned that the actual amounts may vary from the estimates disclosed. Please refer to the "Forward-Looking Information Advisory" section of this MD&A for the risks and assumptions underlying this forward-looking information.*

## Major Projects

The following tables provide cost and schedule estimates for Syncrude's major projects. Regular maintenance capital expenditures for years after 2014 will be provided on an annual basis when we disclose the budgets for those years.

**Major Projects – Total Project Cost and Schedule Estimates**[1]

| | | Total Cost Estimate *($ billions)* | Total Cost Estimate Accuracy *(%)* | Estimated % Complete at June 30, 2014[2] | Target In-Service Date |
|---|---|---|---|---|---|
| **Mildred Lake Mine Train Replacement** | Syncrude | $ 3.9 | +5% / -10% | 94% | Q4 2014 |
| | COS share | 1.4 | | | |
| **Centrifuge Tailings Management** | Syncrude | $ 1.9 | +15% / -15% | 85% | H1 2015 |
| | COS share | 0.7 | | | |

**Major Projects – Annual Spending Profile**[1]

| *($ billions)* | Spent to December 31, 2013 | 2014 | 2015 | Total |
|---|---|---|---|---|
| Syncrude | $ 3.6 | $ 1.8 | $ 0.4 | $ 5.8 |
| Canadian Oil Sands share | $ 1.3 | $ 0.7 | $ 0.1 | $ 2.1 |

1 *Major projects costs include capital expenditures, excluding capitalized interest, and certain development expenses.*
2 *The estimated percentage complete is based on hours spent as a percentage of total forecasted hours to project completion.*

Capital expenditures on the Mildred Lake Mine Train Replacement project are trending below the original budget and the project remains on schedule for completion in the fourth quarter of this year. During the first quarter of 2014, we reduced our cost estimate for the project from $4.2 billion to $3.9 billion (gross to Syncrude) and narrowed the range around this estimate. The Centrifuge Tailings Management project continues to remain on budget and schedule for completion in the first half of 2015.

*The major projects tables contain forward-looking information and users of this information are cautioned that the actual yearly and total major project costs and the actual in-service dates for the major projects may vary from the plans disclosed. The major project cost estimates and major project target in-service dates are based on current spending plans. Please refer to the "Forward-Looking Information Advisory" section of this MD&A for the risks and assumptions underlying this forward-looking information. For a list of additional risk factors that could cause the actual amount of the major project costs and the major project target in-service dates to differ materially, please refer to the Corporation's Annual Information Form dated February 20, 2014 which is available on the Corporation's profile on SEDAR at* ***www.sedar.com*** *and on the Corporation's website at* ***www.cdnoilsands.com.***

## Consolidated Statements of Income and Comprehensive Income

*(unaudited)*

| *(millions of Canadian dollars, except per Share and Share volume amounts)* | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| Sales | **$ 941** | $ 1,036 | **$ 2,055** | $ 1,997 |
| Crown royalties | **(41)** | (28) | **(99)** | (51) |
| **Revenues** | **$ 900** | $ 1,008 | **$ 1,956** | $ 1,946 |
| | | | | |
| **Expenses** | | | | |
| Operating | **$ 418** | $ 394 | **$ 863** | $ 749 |
| Development | **32** | 37 | **64** | 63 |
| Crude oil purchases and transportation | **155** | 115 | **274** | 248 |
| Administration | **6** | 6 | **16** | 16 |
| Insurance | **3** | 2 | **9** | 8 |
| Depreciation and depletion | **112** | 103 | **241** | 225 |
| | **$ 726** | $ 657 | **$ 1,467** | $ 1,309 |
| **Earnings from operating activities** | **$ 174** | $ 351 | **$ 489** | $ 637 |
| Foreign exchange (gain) loss (Note 9) | **(49)** | 45 | **5** | 73 |
| Net finance expense (Note 10) | **11** | 13 | **25** | 26 |
| **Earnings before taxes** | **$ 212** | $ 293 | **$ 459** | $ 538 |
| Tax expense (Note 11) | **36** | 74 | **111** | 142 |
| **Net income** | **$ 176** | $ 219 | **$ 348** | $ 396 |
| **Other comprehensive income (loss), net of taxes** | | | | |
| Items not reclassified to net income: | | | | |
| Re-measurements of employee future benefit plans (Note 6) | **18** | (14) | **42** | - |
| Items reclassified to net income: | | | | |
| Derivative gains | **-** | - | **(1)** | (1) |
| **Comprehensive income** | **$ 194** | $ 205 | **$ 389** | $ 395 |
| | | | | |
| **Weighted average Shares** (millions) | **485** | 485 | **485** | 485 |
| **Shares, end of period** (millions) | **485** | 485 | **485** | 485 |
| | | | | |
| **Net income per Share** | | | | |
| Basic and diluted | **$ 0.36** | $ 0.45 | **$ 0.72** | $ 0.82 |

*See Notes to Unaudited Consolidated Financial Statements*

## Consolidated Statements of Shareholders' Equity

*(unaudited)*

| *(millions of Canadian dollars)* | Three Months Ended June 30 2014 | Three Months Ended June 30 2013 | Six Months Ended June 30 2014 | Six Months Ended June 30 2013 |
|---|---|---|---|---|
| **Retained earnings** | | | | |
| Balance, beginning of period | **$ 2,066** | $ 1,844 | **$ 2,040** | $ 1,823 |
| Net income | **176** | 219 | **348** | 396 |
| Re-measurements of employee future benefit plans | **18** | (14) | **42** | **-** |
| Dividends | **(169)** | (169) | **(339)** | (339) |
| Balance, end of period | **$ 2,091** | $ 1,880 | **$ 2,091** | $ 1,880 |
| **Accumulated other comprehensive income** | | | | |
| Balance, beginning of period | **$ 5** | $ 8 | **$ 6** | $ 9 |
| Reclassification of derivative gains to net income | **-** | - | **(1)** | (1) |
| Balance, end of period | **$ 5** | $ 8 | **$ 5** | $ 8 |
| **Shareholders' capital** | | | | |
| Balance, beginning of period | **$ 2,675** | $ 2,674 | **$ 2,674** | $ 2,673 |
| Issuance of shares | **-** | - | **1** | 1 |
| Balance, end of period | **$ 2,675** | $ 2,674 | **$ 2,675** | $ 2,674 |
| **Contributed surplus** | | | | |
| Balance, beginning of period | **$ 13** | $ 11 | **$ 12** | $ 10 |
| Share-based compensation | **-** | - | **1** | 1 |
| Balance, end of period | **13** | 11 | **13** | 11 |
| **Total Shareholders' equity** | **$ 4,784** | $ 4,573 | **$ 4,784** | $ 4,573 |

*See Notes to Unaudited Consolidated Financial Statements*

## Consolidated Balance Sheets

*(unaudited)*

| As at *(millions of Canadian dollars)* | June 30 2014 | December 31 2013 |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | **$ 82** | $ 806 |
| Accounts receivable | **326** | 369 |
| Inventories | **187** | 163 |
| Prepaid expenses | **1** | 8 |
| | **$ 596** | $ 1,346 |
| Property, plant and equipment, net (Note 4) | **9,098** | 8,712 |
| Exploration and evaluation | **54** | 54 |
| Reclamation trust | **82** | 78 |
| | **$ 9,830** | $ 10,190 |
| **Liabilities and Shareholders' Equity** | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities (Note 5) | **$ 588** | $ 786 |
| Current portion of employee future benefits (Note 6) | **20** | 82 |
| Current taxes | **-** | 259 |
| | **$ 608** | $ 1,127 |
| Long-term debt | **1,609** | 1,602 |
| Deferred taxes | **1,569** | 1,535 |
| Employee future benefits (Note 6) | **228** | 226 |
| Asset retirement obligation (Note 7) | **954** | 868 |
| Other liabilities (Note 8) | **78** | 100 |
| | **$ 5,046** | $ 5,458 |
| Shareholders' equity | **4,784** | 4,732 |
| | **$ 9,830** | $ 10,190 |

Commitments (Note 14)

*See Notes to Unaudited Consolidated Financial Statements*

## Consolidated Statements of Cash Flows
*(unaudited)*

| *(millions of Canadian dollars)* | Three Months Ended June 30 2014 | Three Months Ended June 30 2013 | Six Months Ended June 30 2014 | Six Months Ended June 30 2013 |
|---|---|---|---|---|
| **Cash from (used in) operating activities** | | | | |
| Net income | **$ 176** | $ 219 | **$ 348** | $ 396 |
| Adjustments to reconcile net income to cash flow from operations: | | | | |
| Depreciation and depletion | **112** | 103 | **241** | 225 |
| Accretion of asset retirement obligation (Note 7) | **7** | 6 | **14** | 12 |
| Foreign exchange (gain) loss on long-term debt (Note 9) | **(57)** | 65 | **6** | 102 |
| Deferred taxes (Note 11) | **5** | (16) | **20** | (38) |
| Share-based compensation | **(2)** | (1) | **2** | 1 |
| Reclamation expenditures (Note 7) | **-** | (6) | **(17)** | (39) |
| Change in employee future benefits and other | **(1)** | (30) | **(17)** | (44) |
| Cash flow from operations | **$ 240** | $ 340 | **$ 597** | $ 615 |
| Change in non-cash working capital (Note 15) | **30** | 121 | **(449)** | 175 |
| Cash from operating activities | **$ 270** | $ 461 | **$ 148** | $ 790 |
| **Cash from (used in) financing activities** | | | | |
| Issuance of shares | **$ -** | $ 1 | **$ 1** | $ 1 |
| Dividends | **(169)** | (169) | **(339)** | (339) |
| Cash used in financing activities | **$ (169)** | $ (168) | **$ (338)** | $ (338) |
| **Cash from (used in) investing activities** | | | | |
| Capital expenditures (Note 4) | **$ (321)** | $ (369) | **$ (538)** | $ (637) |
| Reclamation trust funding | **(1)** | (3) | **(4)** | (5) |
| Change in non-cash working capital (Note 15) | **11** | 13 | **8** | 36 |
| Cash used in investing activities | **$ (311)** | $ (359) | **$ (534)** | $ (606) |
| **Foreign exchange gain on cash and cash equivalents held in foreign currency** | **$ -** | $ 11 | **$ -** | $ 17 |
| **Decrease in cash and cash equivalents** | **$ (210)** | $ (55) | **$ (724)** | $ (137) |
| **Cash and cash equivalents, beginning of period** | **292** | 1,471 | **806** | 1,553 |
| **Cash and cash equivalents, end of period** | **$ 82** | $ 1,416 | **$ 82** | $ 1,416 |
| **Cash and cash equivalents consist of:** | | | | |
| Cash | **$ 79** | $ 712 | **$ 79** | $ 712 |
| Short-term investments | **3** | 704 | **3** | 704 |
| | **$ 82** | $ 1,416 | **$ 82** | $ 1,416 |

**Supplementary Information** (Note 15)

*See Notes to Unaudited Consolidated Financial Statements*

# Notes to Unaudited Consolidated Financial Statements
# For the Three and Six Months Ended June 30, 2014

*(Tabular amounts expressed in millions of Canadian dollars, except where otherwise noted)*

## 1) Nature of Operations

Canadian Oil Sands Limited ("Canadian Oil Sands" or the "Corporation") is incorporated under the laws of the Province of Alberta, Canada. The Corporation indirectly owns a 36.74 per cent interest ("Working Interest") in the Syncrude Joint Venture ("Syncrude"). Syncrude is involved in the mining and upgrading of bitumen from oil sands near Fort McMurray in northern Alberta. The Syncrude Project is comprised of open-pit oil sands mines, utilities plants, bitumen extraction plants and an upgrading complex that processes bitumen into Synthetic Crude Oil ("SCO"). Syncrude is jointly controlled by seven owners and each owner takes its proportionate share of production in kind, and funds its share of Syncrude's operating, development and capital costs on a daily basis. The Corporation also indirectly owns 36.74 per cent of the issued and outstanding shares of Syncrude Canada Ltd. ("Syncrude Canada"). Syncrude Canada operates Syncrude on behalf of the owners and is responsible for selecting, compensating, directing and controlling Syncrude's employees, and for administering all related employment benefits and obligations. The Corporation's investment in Syncrude and Syncrude Canada represents its only producing asset.

The Corporation's office is located at the following address: 2000 First Canadian Centre, 350 – 7th Avenue S.W., Calgary, Alberta, Canada T2P 3N9.

## 2) Basis of Presentation

These unaudited interim consolidated financial statements are prepared and reported in Canadian dollars in accordance with Canadian generally accepted accounting principles as set out in Part 1 of the Chartered Professional Accountants of Canada Handbook and in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and effective on July 31, 2014.

Certain disclosures that are normally required to be included in the notes to the annual audited consolidated financial statements have been condensed or omitted as permitted by International Accounting Standard ("IAS") 34, *Interim Financial Reporting.* These unaudited interim consolidated financial statements should be read in conjunction with the Corporation's audited consolidated financial statements and notes thereto for the year ended December 31, 2013.

## 3) Accounting Policies

The same accounting policies and methods of computation are followed in these unaudited interim consolidated financial statements as compared with the most recent audited annual consolidated financial statements for the year ended December 31, 2013 except as follows:

**Taxes**
Current taxes in interim periods are accrued based on our best estimate of the annual effective tax rate applied to year-to-date earnings. Current taxes accrued in one interim period may be adjusted prospectively in a subsequent interim period if the estimate of the annual effective tax rate changes.

**Impairment**
In January 2013, the IASB issued amendments to IAS 36, *Impairment of Assets,* which removed fair value guidance from the standard to ensure consistency with the enhanced fair value measurement and disclosure requirements provided under IFRS 13, *Fair Value Measurements.* Canadian Oil Sands has applied these amendments effective January 1, 2014 in accordance with the applicable transitional provisions, with no impact on the financial statements or disclosures.

**Levies**

In May 2013, the IASB issued International Financial Reporting Interpretations Committee ("IFRIC") Interpretation 21, *Levies,* which provides guidance on when to recognize a liability for levies imposed by governments. Canadian Oil Sands has applied this interpretation effective January 1, 2014, in accordance with the applicable transitional provisions, with no impact on the financial statements or disclosures.

## 4) Property, Plant and Equipment, Net

| | Six Months Ended June 30, 2014 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| *($ millions)* | **Upgrading and Extracting** | **Mining Equipment** | **Vehicles and Equipment** | **Buildings** | **Asset Retirement Costs** | **Major Turnaround Costs** | **Construction in Progress** | **Mine Development** | **Total** |
| **Cost** | | | | | | | | | |
| Balance at January 1, 2014 | $ 5,508 | $ 1,941 | $ 695 | $ 345 | $ 851 | $ 174 | $ 1,647 | $ 678 | $ 11,839 |
| Additions | – | – | 13 | – | – | 69 | 456 | – | 538 |
| Change in asset retirement costs | – | – | – | – | 89 | – | – | – | 89 |
| Retirements | (4) | (16) | (23) | – | – | (43) | – | – | (86) |
| Reclassifications[1] | 33 | 19 | – | 6 | – | – | (58) | – | – |
| Balance at June 30, 2014 | $ 5,537 | $ 1,944 | $ 685 | $ 351 | $ 940 | $ 200 | $ 2,045 | $ 678 | $ 12,380 |
| **Accumulated depreciation** | | | | | | | | | |
| Balance at January 1, 2014 | $ 1,626 | $ 601 | $ 349 | $ 115 | $ 223 | $ 86 | $ – | $ 127 | $ 3,127 |
| Depreciation | 97 | 57 | 27 | 4 | 18 | 32 | – | 6 | 241 |
| Retirements | (4) | (16) | (23) | – | – | (43) | – | – | (86) |
| Balance at June 30, 2014 | $ 1,719 | $ 642 | $ 353 | $ 119 | $ 241 | $ 75 | $ – | $ 133 | $ 3,282 |
| **Net book value at June 30, 2014** | **$ 3,818** | **$ 1,302** | **$ 332** | **$ 232** | **$ 699** | **$ 125** | **$ 2,045** | **$ 545** | **$ 9,098** |

[1] *Reclassifications are primarily transfers from construction in progress to other categories of property, plant and equipment when construction is completed and assets are available for use.*

For the three and six months ended June 30, 2014, interest costs of $28 million and $52 million, respectively, were capitalized and included in property, plant and equipment (three and six months ended June 30, 2013 – $28 million and $51 million, respectively) based on an interest capitalization rate of 6.6 per cent for the three and six months ended June 30, 2014 (6.5 per cent for the three and six months ended June 30, 2013).

## 5) Accounts Payable and Accrued Liabilities

| *($ millions)* | **June 30 2014** | **December 31 2013** |
|---|---|---|
| Trade payables | **$ 476** | $ 491 |
| Crown royalties | **128** | 334 |
| Current portion of asset retirement obligation | **28** | 28 |
| Interest payable | **23** | 23 |
| | **$ 655** | $ 876 |
| Less non-current portion of Crown royalties | **(67)** | (90) |
| Accounts payable and accrued liabilities | **$ 588** | $ 786 |

## 6) Employee Future Benefits

The Corporation's 36.74 per cent share of Syncrude Canada's obligation for pension and other post-employment benefits in excess of the fair value of the assets held in the benefit plans (the "accrued benefit liability") is as follows:

| *($ millions)* | **Six Months Ended June 30 2014** | **Year Ended December 31 2013** |
|---|---|---|
| Accrued benefit liability, beginning of period | **$ 308** | $ 438 |
| Current service cost[1] | **22** | 45 |
| Interest expense[2] | **7** | 16 |
| Contributions | **(33)** | (109) |
| Re-measurement (gains) losses[3]: | | |
| Actual return on plan assets in excess of estimated return[4] | **(53)** | (46) |
| Increase in discount rate | **-** | (91) |
| Other[5] | **(3)** | 55 |
| Accrued benefit liability, end of period | **$ 248** | $ 308 |
| Less current portion | **(20)** | (82) |
| Non-current portion | **$ 228** | $ 226 |

*[1] Current service cost is recognized in net income as operating expense.*
*[2] Interest expense is net of estimated return on plan assets and is recognized in net income as net finance expense.*
*[3] Re-measurement (gains) losses are recognized, net of taxes, in other comprehensive income (loss).*
*[4] Estimated return is based on prescribed 4.5 per cent annualized rate.*
*[5] The other re-measurement loss in 2013 reflects an increase in the estimated average lifespan of the plans' beneficiaries as a result of new actuarial standards.*

## 7) Asset Retirement Obligation

The Corporation and each of the other Syncrude owners are liable for their share of ongoing obligations related to the reclamation and closure of the Syncrude properties on abandonment. The Corporation estimates reclamation and closure expenditures on disturbed mines and existing facilities will be made progressively over the next 70 years and has applied a risk-free interest rate of 2.75 per cent at June 30, 2014 (December 31, 2013 – 3.25 per cent) in deriving the asset retirement obligation.

| *($ millions)* | **Six Months Ended June 30 2014** | **Year Ended December 31 2013** |
|---|---|---|
| Asset retirement obligation, beginning of period | **$ 896** | $ 1,102 |
| (Increase) decrease in risk-free interest rate | **103** | (217) |
| Reclamation expenditures | **(17)** | (42) |
| Increase (decrease) in estimated reclamation and closure expenditures | **(14)** | 27 |
| Accretion expense | **14** | 26 |
| Asset retirement obligation, end of period | **$ 982** | $ 896 |
| Less current portion | **(28)** | (28) |
| Non-current portion | **$ 954** | $ 868 |

## 8) Other Liabilities

| ($ millions) | June 30 2014 | December 31 2013 |
|---|---|---|
| Non-current portion of Crown royalties[1] | **$ 67** | $ 90 |
| Other | **11** | 10 |
| Other liabilities | **$ 78** | $ 100 |

[1] *Transition royalties due under Syncrude's Royalty Amending Agreement.*

## 9) Foreign Exchange

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| ($ millions) | 2014 | 2013 | 2014 | 2013 |
| Foreign exchange (gain) loss – long-term debt | **$ (57)** | $ 65 | **$ 6** | $ 102 |
| Foreign exchange (gain) loss – other | **8** | (20) | **(1)** | (29) |
| Total foreign exchange (gain) loss | **$ (49)** | $ 45 | **$ 5** | $ 73 |

## 10) Net Finance Expense

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| ($ millions) | 2014 | 2013 | 2014 | 2013 |
| Interest costs on long-term debt | **$ 29** | $ 34 | **$ 59** | $ 65 |
| Less capitalized interest on long-term debt | **(28)** | (28) | **(52)** | (51) |
| Interest expense on long-term debt | **$ 1** | $ 6 | **$ 7** | $ 14 |
| Interest expense on employee future benefits | **4** | 4 | **7** | 8 |
| Accretion of asset retirement obligation | **7** | 6 | **14** | 12 |
| Interest income | **(1)** | (3) | **(3)** | (8) |
| Net finance expense | **$ 11** | $ 13 | **$ 25** | $ 26 |

## 11) Tax Expense

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| ($ millions) | 2014 | 2013 | 2014 | 2013 |
| Current tax expense | **$ 31** | $ 90 | **$ 91** | $ 180 |
| Deferred tax expense (recovery) | **5** | (16) | **20** | (38) |
| Total tax expense | **$ 36** | $ 74 | **$ 111** | $ 142 |

## 12) Capital Management

The Corporation's capital consists of cash and cash equivalents, debt and Shareholders' equity. The balance of each of these items at June 30, 2014 and December 31, 2013 was as follows:

| As at *($ millions, except % amounts)* | June 30 2014 | December 31 2013 |
|---|---|---|
| Long-term debt[1] | **$ 1,609** | $ 1,602 |
| Cash and cash equivalents[1] | **(82)** | (806) |
| Net debt[2,3] | **$ 1,527** | $ 796 |
| Shareholders' equity[1] | **$ 4,784** | $ 4,732 |
| Total net capitalization[2,4] | **$ 6,311** | $ 5,528 |
| Total capitalization[2,5] | **$ 6,393** | $ 6,334 |
| Net debt-to-total net capitalization[2,6] (%) | **24** | 14 |
| Long-term debt-to-total capitalization[2,7] (%) | **25** | 25 |

[1] *As reported in the Consolidated Balance Sheets.*
[2] *Additional GAAP financial measure.*
[3] *Long-term debt less cash and cash equivalents.*
[4] *Net debt plus Shareholders' equity.*
[5] *Long-term debt plus Shareholders' equity.*
[6] *Net debt divided by total net capitalization.*
[7] *Long-term debt divided by total capitalization.*

In the first six months of 2014, net debt rose $731 million to $1,527 million at June 30, 2014 as cash and cash flow from operations was used to fund capital expenditures, dividend payments and to settle existing tax and Crown royalty liabilities of approximately $500 million. Accordingly, net debt-to-total net capitalization increased to 24 per cent at June 30, 2014 from 14 per cent at December 31, 2013.

Shareholders' equity increased to $4,784 million at June 30, 2014 from $4,732 million at December 31, 2013, as comprehensive income exceeded dividends during 2014.

In July 2014, Canadian Oil Sands extended the terms of its credit facilities by approximately one year. The $1,500 million credit facility was extended to June 30, 2018 and the $40 million credit facility to June 30, 2016. No amounts were drawn against these facilities at June 30, 2014 or December 31, 2013.

The Senior Notes indentures and credit facility agreements contain certain covenants that restrict Canadian Oil Sands' ability to sell all or substantially all of its assets or change the nature of its business, and limit long-term debt-to-total capitalization to 55 per cent. Canadian Oil Sands is in compliance with its debt covenants, and with a long-term debt-to-total capitalization of 25 per cent at June 30, 2014, a significant increase in debt or decrease in equity would be required to negatively impact the Corporation's financial flexibility.

## 13) Financial Instruments

The Corporation's financial instruments include cash and cash equivalents, accounts receivable, investments held in a reclamation trust, accounts payable and accrued liabilities, and current and non-current portions of long-term debt. The nature, the Corporation's use of, and the risks associated with these instruments are unchanged from December 31, 2013.

**Offsetting Financial Assets and Financial Liabilities**

The carrying values of accounts receivable and accounts payable and accrued liabilities have each been reduced by $85 million ($49 million at December 31, 2013) as a result of netting agreements with counterparties.

**Fair Values**

The fair values of cash and cash equivalents, accounts receivable, reclamation trust investments and accounts payable and accrued liabilities approximate their carrying values due to the short-term nature of those instruments. The following fair values of long-term debt are based on Level 2 inputs to fair value measurement, which represent indicative bids or spreads for a round lot transaction within the relevant market:

| As at (*$ millions*) | June 30 2014 | December 31 2013 |
|---|---|---|
| 8.2% Senior Notes due April 1, 2027 (U.S. $73.95 million) | **$ 103** | $ 95 |
| 7.9% Senior Notes due September 1, 2021 (U.S. $250 million) | **334** | 321 |
| 6.0% Senior Notes due April 1, 2042 (U.S. $300 million) | **372** | 323 |
| 4.5% Senior Notes due April 1, 2022 (U.S. $400 million) | **450** | 425 |
| 7.75% Senior Notes due May 15, 2019 (U.S. $500 million) | **654** | 636 |
| | **$ 1,913** | $ 1,800 |

## 14) Commitments

Canadian Oil Sands' commitments are summarized in the 2013 annual consolidated financial statements and include future cash payments under contractual arrangements that it has entered into either directly or as a 36.74 per cent owner in Syncrude. In 2014, Canadian Oil Sands assumed $75 million in new funding commitments relating to capital projects while the Corporation's share of payments prescribed by regulations on Syncrude Canada's registered pension plans decreased by approximately $200 million as a result of an actuarial valuation completed in April, 2014.

## 15) Supplementary Information

### a) Change in Non-Cash Working Capital

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| (*$ millions*) | **2014** | **2013** | **2014** | **2013** |
| Operating activities: | | | | |
| Accounts receivable | **$ 97** | $ 31 | **$ 43** | $ 27 |
| Inventories | **(14)** | 12 | **(24)** | (11) |
| Prepaid expenses | **4** | 4 | **7** | 7 |
| Accounts payable and accrued liabilities ("AP") | **(56)** | 7 | **(198)** | 62 |
| Current taxes | **-** | 78 | **(259)** | 124 |
| Other | **10** | 2 | **(10)** | 2 |
| AP changes reclassified to investing activities | **(11)** | (13) | **(8)** | (36) |
| Change in operating non-cash working capital | **$ 30** | $ 121 | **$ (449)** | $ 175 |
| Investing activities: | | | | |
| Accounts payable and accrued liabilities | **$ 11** | $ 13 | **$ 8** | $ 36 |
| Change in investing non-cash working capital | **$ 11** | $ 13 | **$ 8** | $ 36 |
| Change in total non-cash working capital | **$ 41** | $ 134 | **$ (441)** | $ 211 |

### b) Income Taxes and Interest Paid

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| *($ millions)* | **2014** | 2013 | **2014** | 2013 |
| Income taxes paid | **$ 55** | $ 12 | **$ 393** | $ 56 |
| Interest paid | **$ 23** | $ 43 | **$ 58** | $ 63 |

Income taxes paid and the portion of interest costs that is expensed are included within cash from operating activities on the Consolidated Statements of Cash Flows. The portion of interest costs that is capitalized as property, plant and equipment is included within cash used in investing activities on the Consolidated Statements of Cash Flows.

### c) Cash Flow from Operations per Share

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| *($ millions)* | **2014** | 2013 | **2014** | 2013 |
| Cash Flow From Operations Per Share, basic and diluted | **$ 0.50** | $ 0.70 | **$ 1.23** | $ 1.27 |

Cash flow from operations per Share is calculated as cash flow from operations, which is cash from operating activities before changes in non-cash working capital, divided by the weighted-average number of outstanding Shares in the period.

**Canadian Oil Sands Limited**
Ryan Kubik
President & Chief Executive Officer

**Shares Listed – Symbol: COS**
Toronto Stock Exchange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