

Canadian Oil Sands Announces Second Quarter Financial Results and a \$0.35 Per Share Dividend

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-- COS also announces planned retirement of President and CEO, Marcel Coutu --

CALGARY, ALBERTA--(Marketwired - Jul 30, 2013) - [Canadian Oil Sands Ltd.](#) (TSX:COS)(OTCQX:COSWF)

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

Highlights for the three and six-month periods ended June 30, 2013:

- Cash flow from operations increased to \$343 million, or \$0.71 per Share, in the second quarter of 2013 from \$245 million, or \$0.51 per Share, in the second quarter of 2012, reflecting a higher realized selling price and higher sales volumes, partially offset by higher current taxes. In the first six months of 2013, cash flow from operations decreased to \$618 million, or \$1.28 per Share, from \$699 million, or \$1.44 per Share, for the same period in 2012, reflecting higher current taxes partially offset by a higher realized selling price and lower Crown royalties.
- Net income increased to \$219 million, or \$0.45 per Share, in the second quarter of 2013 from \$101 million, or \$0.21 per Share, in the second quarter of 2012, reflecting a higher realized selling price and higher sales volumes, partially offset by higher taxes in 2013. On a year-to-date basis, net income decreased to \$396 million, or \$0.82 per Share, in 2013 from \$419 million, or \$0.86 per Share, in 2012.
- COS has maintained its quarterly dividend at \$0.35 per Share, payable on August 30, 2013 to shareholders of record on August 23, 2013. In the first half of 2013, the Corporation paid dividends to shareholders totalling \$339 million, or \$0.70 per Share.
- Sales volumes averaged about 100,100 barrels per day in the second quarter of 2013 compared with 89,500 barrels per day in the second quarter of 2012, reflecting the start of turnarounds on Coker 8-1 and the LC Finer as well as unplanned outages in extraction units in 2013 versus the full Coker 8-3 and Vacuum Distillation Unit turnarounds in 2012. Year-to-date, sales volumes averaged about 97,900 barrels per day compared to 98,800 in 2012.
- Capital expenditures increased to \$369 million in the second quarter of 2013 from \$292 million in the second quarter of 2012, as a result of spending on the major projects at Syncrude to replace or relocate mine trains and to support tailings management plans. For the first six months of 2013, capital expenditures increased to \$637 million from \$433 million for the same period in 2012. All four major capital projects remain on schedule and on budget.
- Operating expenses decreased to \$394 million, or \$43.23 per barrel, in the second quarter of 2013 from \$409 million, or \$50.25 per barrel, in the same quarter of 2012, reflecting less maintenance activity partially offset by higher natural gas prices. Year-to-date, operating expenses increased to \$749 million, or \$42.24 per barrel, in 2013 from \$730 million, or \$40.63 per barrel, in the comparative 2012 period, reflecting higher natural gas prices. Per-barrel operating expenses are also impacted by sales volumes, which were higher in the second quarter of 2013, and similar in the first half of 2013, relative to the comparative 2012 periods.
- Net debt, comprised of current and non-current portions of long-term debt less cash and cash equivalents, increased to \$481 million at June 30, 2013 from \$241 million at December 31, 2012, as existing cash balances were used to fund capital expenditures and dividend payments in excess of cash flow from operations.

- The first of two mine train relocations at Aurora North was completed earlier this month, and the mine train is now operating at its new site. The relocation of the second mine train is underway and is anticipated to be complete in the fourth quarter of 2013, with close-out and clean-up work continuing into the first quarter of 2014.
- The turnaround of Coker 8-1 was accelerated to the second quarter of 2013 from the second half of the year as a result of an unplanned outage in an associated boiler unit that reduced throughput in the coker.
- On June 7, 2013, the Energy Resource and Conservation Board (ERCB) released its assessment report on the Alberta government's Directive 74, which sets out industry-wide standards to reduce the size and number of tailings ponds. The ERCB's report indicates that, over the past two reporting periods covering 2010 to 2012, Syncrude's performance achieved the cumulative fines capture that was set out in the plan Syncrude submitted to the ERCB.

"COS' operational results primarily reflect the accelerated Coker 8-1 turnaround, which was originally scheduled for September, as well as reduced reliability in Syncrude's extraction units," said Marcel Coutu, President and Chief Executive Officer. "At the same time, we made significant progress on our major projects with the successful move of the first of two mine trains at Aurora North, which is now up and running. We believe that Syncrude will achieve better performance in the second half of 2013 and look forward to the completion of the second mine train move in the fourth quarter."

"COS' results also incorporate better-than-expected pricing for West Texas Intermediate, the benchmark crude on which our product pricing is based, a strong \$4.70 per barrel premium to WTI for our Synthetic Crude Oil and a favourable U.S. to Canadian dollar exchange rate," said Marcel Coutu, President and Chief Executive Officer. "Our balance sheet remains strong with a cash position of \$1.4 billion that will be used to advance our major capital program while maintaining a healthy \$0.35 per Share quarterly dividend."

Highlights

	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
Cash flow from operations ⁽¹⁾ (\$ millions)	\$ 343	\$ 245	\$ 618	\$ 699
Per Share ⁽¹⁾ (\$/Share)	\$ 0.71	\$ 0.51	\$ 1.28	\$ 1.44
Net income (\$ millions)	\$ 219	\$ 101	\$ 396	\$ 419
Per Share, Basic and Diluted (\$/Share)	\$ 0.45	\$ 0.21	\$ 0.82	\$ 0.86
Sales volumes ⁽²⁾				
Total (mmbbls)	9.1	8.1	17.7	18.0
Daily average (bbls)	100,094	89,460	97,901	98,784
Realized SCO selling price (\$/bbl)	\$ 100.90	\$ 90.59	\$ 98.56	\$ 94.13
West Texas Intermediate ("WTI") (average \$US/bbl)	\$ 94.17	\$ 93.35	\$ 94.26	\$ 98.15
SCO premium (discount) to WTI (weighted average \$/bbl)	\$ 4.69	\$ (5.31)	\$ 2.85	\$ (5.62)
Operating expenses (\$/bbl)	\$ 43.23	\$ 50.25	\$ 42.24	\$ 40.63
Capital expenditures (\$ millions)	\$ 369	\$ 292	\$ 637	\$ 433
Dividends (\$ millions)	\$ 169	\$ 170	\$ 339	\$ 315
Per Share (\$/Share)	\$ 0.35	\$ 0.35	\$ 0.70	\$ 0.65

⁽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.

Syncrude operations

During the second quarter of 2013, Syncrude produced an average of 273,100 barrels per day (total 24.8 million barrels), compared with 238,500 barrels per day (total 21.7 million barrels) during the same 2012 period. Production in the second quarter of 2013 reflects the start of turnarounds on Coker 8-1 and the LC Finer and unplanned outages in extraction units while production in the second quarter of 2012 reflects full turnarounds on Coker 8-3 and the Vacuum Distillation Unit.

Year-to-date, Syncrude produced an average 266,800 barrels per day (total 48.3 million barrels) in 2013

compared with 266,700 barrels per day (total 48.5 million barrels) in 2012.

2013 Outlook revised

COS has reduced its production estimate to 100 to 104 million barrels for 2013 with a single-point estimate of 102 million barrels. The production outlook reflects actual results to date, a larger than anticipated production impact for the Coker 8-1 turnaround, and more reliable operations in the second half of the year.

Canadian Oil Sands provides the following additional key estimates and assumptions for 2013:

- Sales, net of crude oil purchases and transportation expense, of approximately \$3.5 billion reflect estimated sales volumes of 37.5 million barrels and a \$94 per barrel plant-gate realized selling price (based on a U.S. \$90 per barrel WTI oil price, a \$2 per barrel SCO premium to Cdn dollar WTI and a foreign exchange rate of \$0.98 U.S./Cdn).
- Operating expenses of \$1,507 million, or \$40.21 per barrel, reflecting actual costs incurred to date and a natural gas price assumption of \$3.50 per gigajoule.
- Cash flow from operations of \$1,260 million, or \$2.60 per Share.
- Capital expenditures are estimated to total \$1,279 million, comprised of \$828 million of spending on major projects, \$349 million in regular maintenance of the business and other projects, and \$102 million in capitalized interest.
- COS intends to maintain a quarterly dividend of \$0.35 per Share in 2013, based on the assumptions provided in our Outlook for 2013.

More information on the 2013 Outlook is provided in our MD&A and the July 30, 2013 guidance document, which is available on our web site at www.cdnoilsands.com under "Investor Centre".

The 2013 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.

Retirement of President and CEO, Marcel Coutu

Marcel Coutu, President and CEO of [Canadian Oil Sands Ltd.](http://www.cdnoilsands.com), today announced his plan to retire effective January 1, 2014.

Mr. Coutu joined COS in August 2001 as the President and CEO of the newly merged entity, Canadian Oil Sands Trust. Over his 12-year tenure with the company, COS grew from a \$2 billion market cap income trust with a 21.74 per cent Syncrude interest to a \$10 billion market cap corporation with a 36.74 per cent Syncrude interest. He also recruited the present COS management team and internalized the marketing function, thereby providing more management control over COS' share of Syncrude's crude oil output. Furthermore, Mr. Coutu elevated COS' influence in the Syncrude Joint Venture on behalf of all shareholders through his activities as Chairman of the Board of Syncrude Canada, and chair of the Syncrude CEO Committee and Management Committee.

"I have been fortunate and proud to lead COS through the economic and commodity cycles of the past decade. With this solid asset base, a talented management team and the approaching completion of Syncrude's major sustaining projects, I believe COS is well positioned for continued success; it's therefore a good time for me to pass the leadership of this great company on to a successor," said Mr. Coutu.

Scott Sullivan, CEO of Syncrude Canada, commented: "On behalf of the Syncrude Joint Venture and in particular its founding owner, Imperial Oil Ltd., we extend our warmest wishes to our Chairman, Mr. Coutu, for a long and healthy retirement in appreciation for the commitment and leadership he provided to Canada's largest oil sands mining project for more than a decade."

COS' Board of Directors has a succession plan in place and has commenced a search for his successor. Mr. Coutu has agreed to provide consulting services for one year following his effective retirement date to support an orderly and seamless transition.

"The Board would like to thank Mr. Coutu for his leadership and commitment to COS. During his tenure, COS delivered a 14 per cent compound total return to shareholders that includes share price appreciation as well as dividends totalling \$6.8 billion. Today, COS remains in the top half of its peer group for total shareholder return," said Don Lowry, Chairman of COS.

Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") was prepared as of July 30, 2013 and should be read in conjunction with the unaudited consolidated financial statements and notes thereto of [Canadian Oil Sands Ltd.](#) (the "Corporation") for the three and six months ended June 30, 2013 and June 30, 2012, the audited consolidated financial statements and MD&A of the Corporation for the year ended December 31, 2012 and the Corporation's Annual Information Form ("AIF") dated February 21, 2013. 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.

Forward-Looking Information Advisory

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 2013 annual Syncrude forecasted production range of 100 million barrels to 104 million barrels and the single-point Syncrude production estimate of 102 million barrels (37.5 million barrels net to the Corporation); the expectation that the Coker 8-1 turnaround will be completed in early August, 2013; the intention to maintain a quarterly dividend of \$0.35 per Share in 2013 based on the assumptions in our 2013 Outlook; future dividends and any increase or decrease from current payment amounts; the establishment of future dividend levels with the intent of absorbing short-term market volatility over several quarters; the level of natural gas consumption in 2013 and beyond; views on North American natural gas production levels and prices; the expected sales, operating expenses, development expenses, Crown royalties, capital expenditures and cash flow from operations for 2013; the anticipated amount of current taxes in 2013; expectations regarding current taxes beyond 2013; expectations regarding the Corporation's cash levels for 2013 and 2014; the expected price for crude oil and natural gas in 2013; the expected foreign exchange rates in 2013; the expected realized selling price, which includes the anticipated differential to West Texas Intermediate ("WTI") to be received in 2013 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 expectation that regular maintenance capital costs will average approximately \$10 per barrel over the next few years; the expected amount of total major project costs, anticipated target in-service dates and estimated completion percentages for the Mildred Lake mine train replacements, the Aurora North mine train relocations, the composite tails plant at the Aurora North mine and the centrifuge plant at the Mildred Lake mine; the cost estimates for 2013 to 2015 major project spending; the expectation that the volatility in the Synthetic Crude Oil ("SCO") to WTI differential is likely to persist for several years until additional pipeline or other delivery capacity is available to deliver crude oil from Western Canada to Cushing, Oklahoma, the U.S. Gulf Coast or the Canadian East or West Coasts; the timing of the Aurora North mine train relocations; and the belief that Syncrude will achieve better performance in the second half of 2013.

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 30, 2013 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: the impacts of legislative or regulatory changes especially as such relate to royalties, taxation, the environment and tailings; the impact of technology on operations and processes and how new complex technology may not perform as expected; skilled labour shortages and the productivity achieved from labour in the Fort McMurray area; the supply and demand metrics for oil and natural gas; the impact that pipeline capacity and refinery demand have on prices for our product; the unanimous joint venture owner approval for major expansions and changes in product types; the variances of stock market activities generally; global economic conditions/volatility; normal risks associated with litigation, general economic, business and market conditions; the impact of Syncrude being unable to meet the conditions of its approval for its tailings management plan under Directive 74; volatility of crude oil prices; volatility of the SCO to WTI price differential; unsuccessful or untimely implementation of capital or maintenance projects; various events that could disrupt operations, including fires, equipment failures and severe weather and such other risks and uncertainties described in the Corporation's AIF dated February 21, 2013 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 30, 2013, 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. We believe cash flow from operations and cash flow from operations per Share, which are not impacted by fluctuations in non-cash working capital balances, are more indicative of operational performance than cash from operating activities. With the exception of current tax payable and liabilities for Crown royalties, 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:

(\$ millions)	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
Cash flow from operations ⁽¹⁾	\$ 343	\$ 245	\$ 618	\$ 699
Change in non-cash working capital ⁽¹⁾	119	117	172	229
Cash from operating activities ⁽¹⁾	\$ 462	\$ 362	\$ 790	\$ 928

⁽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 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, 2013.

Overview

Synthetic Crude Oil ("SCO") production from the Syncrude Joint Venture ("Syncrude") was lower than expected in the second quarter of 2013, primarily due to a turnaround on Coker 8-1, which commenced in early June, and unplanned outages in extraction units. The Coker 8-1 turnaround was scheduled to occur in the second half of the year but was advanced following an outage on an associated boiler unit. Syncrude second quarter production volumes totalled 24.8 million barrels, or 273,100 barrels per day, compared with 28.0 million barrels, or 307,700 barrels per day in our April 30, 2013 Outlook (included in the first quarter 2013 MD&A).

Cash flow from operations totalled \$343 million in the second quarter, driven largely by a U.S. \$94 per barrel West Texas Intermediate ("WTI") oil price and a \$4.69 per barrel SCO premium to WTI. COS realized a \$101 per barrel average selling price, 19 per cent higher than the \$85 per barrel annual forecast in the April 30, 2013 Outlook. Operating expenses averaged \$43.23 per barrel, reflecting the lower-than-expected volumes. Syncrude's major capital projects progressed as planned with \$369 million of capital spending (net to COS) in the quarter. We achieved an important milestone with the relocation and start-up of the first of two mine trains at the Aurora North mine in July. Relocation of the second mine train is scheduled to be complete in the fourth quarter.

Based on the results achieved in the first half of the year, we have updated our 2013 Outlook to reflect a higher \$94 per barrel realized selling price and a lower Syncrude production range of 100 to 104 million barrels with a single-point estimate of 102 million barrels. Our revised 2013 Outlook estimates 2013 cash flow from operations of \$1.3 billion which, combined with our \$1.4 billion of cash at June 30, 2013, should allow us to fund our estimated \$1.3 billion of capital expenditures and maintain the \$0.35 per Share quarterly dividend in 2013.

Highlights

	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
Cash flow from operations ⁽¹⁾ (\$ millions)	\$ 343	\$ 245	\$ 618	\$ 699
Per Share ⁽¹⁾ (\$/Share)	\$ 0.71	\$ 0.51	\$ 1.28	\$ 1.44
Net income (\$ millions)	\$ 219	\$ 101	\$ 396	\$ 419
Per Share, Basic and Diluted (\$/Share)	\$ 0.45	\$ 0.21	\$ 0.82	\$ 0.86
Sales volumes ⁽²⁾				
Total (mmbbls)	9.1	8.1	17.7	18.0
Daily average (bbls)	100,094	89,460	97,901	98,784
Realized SCO selling price (\$/bbl)	\$ 100.90	\$ 90.59	\$ 98.56	\$ 94.13
West Texas Intermediate ("WTI") (average \$US/bbl)	\$ 94.17	\$ 93.35	\$ 94.26	\$ 98.15
SCO premium (discount) to WTI (weighted average \$/bbl)	\$ 4.69	\$ (5.31)	\$ 2.85	\$ (5.62)
Operating expenses (\$/bbl)	\$ 43.23	\$ 50.25	\$ 42.24	\$ 40.63

Capital expenditures (\$ millions)	\$	369	\$	292	\$	637	\$	433
Dividends (\$ millions)	\$	169	\$	170	\$	339	\$	315
Per Share (\$/Share)	\$	0.35	\$	0.35	\$	0.70	\$	0.65

⁽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 Financial Results

To view the Cash Flow from Operations, please visit the following link:

<http://media3.marketwire.com/docs/COSimage.pdf>.

Cash flow from operations increased to \$343 million, or \$0.71 per Share, in the second quarter of 2013 from \$245 million, or \$0.51 per Share, in the second quarter of 2012, reflecting a higher realized selling price and higher sales volumes, partially offset by higher current taxes. On a year-to-date basis, cash flow from operations decreased to \$618 million, or \$1.28 per Share, in 2013 from \$699 million, or \$1.44 per Share, in 2012, reflecting higher current taxes partially offset by a higher realized selling price and lower Crown royalties.

The second quarter 2013 realized selling price averaged \$100.90 per barrel compared with \$90.59 per barrel in the 2012 second quarter, primarily due to an improvement in the SCO differential to WTI. On a year-to-date basis, the 2013 realized selling price averaged \$98.56 per barrel compared with \$94.13 per barrel in 2012, primarily due to an improvement in the SCO differential to WTI partially offset by a lower WTI oil price.

Syncrude production in the 2013 second quarter totalled 24.8 million barrels, or 273,100 barrels per day, a 14 per cent increase from second quarter 2012 production of 21.7 million barrels, or 238,500 barrels per day. Production volumes in the second quarter of 2013 reflect the start of turnarounds on Coker 8-1 and the LC Finer and unplanned outages in extraction units, while 2012 second quarter production volumes reflect full turnarounds on Coker 8-3 and the Vacuum Distillation Unit. Net to the Corporation, sales volumes increased to 9.1 million barrels, or 100,100 barrels per day, in the 2013 second quarter from 8.1 million barrels, or 89,500 barrels per day, in the 2012 second quarter.

On a year-to-date basis, Syncrude production in 2013 totalled 48.3 million barrels, or 266,800 barrels per day, compared with 48.5 million barrels, or 266,700 barrels per day in 2012. Production volumes in 2013 reflect the start of the Coker 8-1 and LC Finer turnarounds and unplanned outages in extraction and hydrotreating units. Production volumes in 2012 reflect the full Coker 8-3 and Vacuum Distillation Unit turnarounds and unplanned maintenance on Coker 8-1. Net to the Corporation, sales volumes totalled 17.7 million barrels, or 97,900 barrels per day, in the first half of 2013 compared with 18.0 million barrels, or 98,800 barrels per day, in the comparative 2012 period.

Current taxes increased in 2013 primarily because tax pools and the partnership structure sheltered a portion of 2012 income from current taxes. The decrease in Crown royalties in the first half of 2013 reflects increases in deductible capital expenditures.

Net Income

Net income increased to \$219 million, or \$0.45 per Share, in the second quarter of 2013 from \$101 million, or \$0.21 per Share, in the second quarter of 2012, reflecting a higher realized selling price and higher sales volumes partially offset by higher taxes in 2013.

On a year-to-date basis, net income decreased to \$396 million, or \$0.82 per Share, in 2013 from \$419 million, or \$0.86 per Share, in 2012, reflecting a larger foreign exchange loss, primarily as a result of revaluations of our U.S. dollar-denominated debt, higher depreciation expense and lower sales volumes, partially offset by a higher realized selling price and lower Crown royalties in 2013.

The following table shows the components of net income per barrel of SCO:

(\$ per barrel) ⁽¹⁾	Three Months Ended June 30			Six Months Ended June 30		
	2013	2012	Change	2013	2012	Change
Sales net of crude oil purchases and transportation expense	\$ 100.96	\$ 90.88	\$ 10.08	\$ 98.63	\$ 94.38	\$ 4.25
Operating expense	(43.23)	(50.25)	7.02	(42.24)	(40.63)	(1.61)
Crown royalties	(3.03)	(2.06)	(0.97)	(2.86)	(6.25)	3.39
	\$ 54.70	\$ 38.57	\$ 16.13	\$ 53.53	\$ 47.50	\$ 6.03
Development expense ⁽²⁾	\$ (4.16)	\$ (3.10)	\$ (1.06)	\$ (3.58)	\$ (2.79)	\$ (0.79)
Administration and insurance expenses	(0.87)	(1.15)	0.28	(1.31)	(0.97)	(0.34)
Depreciation and depletion expense	(11.26)	(11.48)	0.22	(12.68)	(10.48)	(2.20)
Net finance expense	(1.30)	(2.54)	1.24	(1.43)	(1.74)	0.31
Foreign exchange gain (loss)	(4.99)	(3.22)	(1.77)	(4.13)	(0.55)	(3.58)
Tax expense	(8.03)	(4.70)	(3.33)	(7.99)	(7.67)	(0.32)
	(30.61)	(26.19)	(4.42)	(31.12)	(24.20)	(6.92)
Net income per barrel	\$ 24.09	\$ 12.38	\$ 11.71	\$ 22.41	\$ 23.30	\$ (0.89)
Sales volumes (mmbbls) ⁽³⁾	9.1	8.1	1.0	17.7	18.0	(0.3)

⁽¹⁾Unless otherwise specified, the per barrel measures in this MD&A have been derived by dividing the relevant item by sales volumes in the period.

⁽²⁾Previously referred to as non-production expenses.

⁽³⁾Sales volumes, net of purchased crude oil volumes.

Sales Net of Crude Oil Purchases and Transportation Expense

(\$ millions, except where otherwise noted)	Three Months Ended June 30			Six Months Ended June 30		
	2013	2012 ⁽⁴⁾	Change	2013	2012 ⁽⁴⁾	Change
Sales ⁽¹⁾	\$ 1,036	\$ 825	\$ 211	\$ 1,997	\$ 1,899	\$ 98
Crude oil purchases	(101)	(77)	(24)	(224)	(185)	(39)
Transportation expense	(14)	(8)	(6)	(24)	(18)	(6)
	\$ 921	\$ 740	\$ 181	\$ 1,749	\$ 1,696	\$ 53
Sales volumes ⁽²⁾						
Total (mmbbls)	9.1	8.1	1.0	17.7	18.0	(0.3)
Daily average (bbls)	100,094	89,460	10,634	97,901	98,784	(883)
Realized SCO selling price ⁽³⁾ (average \$Cdn/bbl)	\$ 100.90	\$ 90.59	\$ 10.31	\$ 98.56	\$ 94.13	\$ 4.43
West Texas Intermediate ("WTI") (average \$US/bbl)	\$ 94.17	\$ 93.35	\$ 0.82	\$ 94.26	\$ 98.15	\$ (3.89)
SCO premium (discount) to WTI (weighted average \$Cdn/bbl)	\$ 4.69	\$ (5.31)	\$ 10.00	\$ 2.85	\$ (5.62)	\$ 8.47
Average foreign exchange rate (\$US/\$Cdn)	\$ 0.98	\$ 0.99	\$ (0.01)	\$ 0.98	\$ 0.99	\$ (0.01)

⁽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.

⁽⁴⁾During the fourth quarter of 2012, the Corporation completed a review of the presentation of crude oil purchase and sales transactions and determined that certain transactions previously reported on a gross basis (sales presented gross of crude oil purchases and transportation expense) are more appropriately reflected on a net basis (crude oil purchases and/or transportation expense are netted against sales). Prior period comparative amounts have been reclassified for comparability with the current period presentation. The impact is as follows:

(\$ millions)	Three months ended June 30, 2012		Six months ended June 30, 2012	
	Increase (decrease)		Increase (decrease)	
Sales	\$	(57)	\$	(120)
Crude oil purchases		(57)		(121)
Transportation expense		-		1
Sales net of crude oil purchases and transportation expense	\$	-	\$	-

The \$181 million, or 24 per cent, increase in second quarter 2013 sales, net of crude oil purchases and transportation expense, reflects a higher realized selling price and higher sales volumes relative to the 2012 second quarter.

The second quarter 2013 realized selling price increased by \$10.31 per barrel, reflecting a \$10.00 per barrel improvement in the weighted-average SCO differential to WTI, a U.S. \$0.82 per barrel increase in WTI oil

prices, and a weaker Canadian dollar.

Second quarter 2013 sales volumes, which averaged 100,100 barrels per day, were impacted by the start of the Coker 8-1 and LC Finer turnarounds and unplanned outages in extraction units while second quarter 2012 sales volumes, which averaged 89,500 barrels per day, were impacted by the full Coker 8-3 and Vacuum Distillation Unit turnarounds.

The \$53 million, or three per cent, increase in year-to-date 2013 sales, net of crude oil purchases and transportation expense, primarily reflects a higher realized selling price. Sales volumes were similar in both periods.

The realized selling price for the first half of 2013 increased \$4.43 per barrel, as an \$8.47 per barrel improvement in the weighted-average SCO differential to WTI and a weaker Canadian dollar more than offset a U.S. \$3.89 per barrel decrease in WTI oil prices.

Sales volumes for the first half of 2013, which averaged 97,900 barrels per day, were impacted by the Coker 8-1 and LC Finer turnarounds, as well as unplanned outages in extraction and hydrotreating units, while sales volumes for the comparative 2012 period, which averaged 98,800 barrels per day, were impacted by the Coker 8-3 and Vacuum Distillation Unit turnarounds and unplanned maintenance on Coker 8-1.

Both WTI and the SCO differential to WTI reflect supply/demand fundamentals for inland North American light crude oil. Increasing North American production of light crude oil, and refinery modifications that enable processing of heavier crude oils, can push light crude sales, including SCO, to more distant refineries, thereby increasing transportation costs and exposing COS' product to supply/demand factors in different markets. A number of pipelines in both Canada and the United States are at, or near, capacity and any pipeline apportionments can exacerbate this situation by restricting the ability of SCO and other crude oils to reach preferred markets. However, strong demand from customers and increases in rail shipments of inland crude to coastal refineries can offset these forces. These supply and demand dynamics create price volatility that is likely to persist for several years until additional pipeline or other delivery capacity is available to deliver crude oil from Western Canada to Cushing, Oklahoma, the U.S. Gulf Coast, or the Canadian East or West Coasts.

The Corporation 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. Crude oil purchases were higher in the second quarter and first half of 2013, relative to the comparative 2012 periods, reflecting additional purchased volumes to support unanticipated production shortfalls and to facilitate certain transportation arrangements.

Operating Expenses

The following table breaks down operating expenses into their major components:

	Three Months Ended June 30				Six Months Ended June 30			
	2013	2012	2013	2012	2013	2012	2013	2012
	\$ millions	\$ per bbl	\$ millions	\$ per bbl	\$ millions	\$ per bbl	\$ millions	\$ per bbl
Production and maintenance ⁽¹⁾	\$ 327	\$ 35.90	\$ 350	\$ 43.05	\$ 609	\$ 34.34	\$ 605	\$ 33.69
Natural gas and diesel purchases ⁽²⁾	38	4.22	25	3.01	83	4.66	61	3.38
Syncrude pension and incentive compensation	19	2.05	23	2.87	40	2.27	43	2.41
Other ⁽³⁾	10	1.06	11	1.32	17	0.97	21	1.15
Total operating expenses	\$ 394	\$ 43.23	\$ 409	\$ 50.25	\$ 749	\$ 42.24	\$ 730	\$ 40.63

⁽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 decrease in total operating expenses in the second quarter of 2013 reflects less maintenance activity, partially offset by higher natural gas prices. The increase in total operating expenses in the first half of 2013

reflects higher natural gas prices.

Per-barrel operating expenses are also impacted by sales volumes, which were higher in the second quarter of 2013, and similar in the first half of 2013, relative to the comparative 2012 periods.

The following table shows operating expenses per barrel of bitumen and SCO. The information allocates costs to bitumen production and upgrading on the basis used to determine Crown royalties.

	Three Months Ended June 30				Six Months Ended June 30			
	2013		2012 ⁽³⁾		2013		2012 ⁽³⁾	
(\$ per barrel)	Bitumen	SCO	Bitumen	SCO	Bitumen	SCO	Bitumen	SCO
Bitumen production	\$ 28.13	\$ 32.26	\$ 34.35	\$ 37.85	\$ 27.28	\$ 32.31	\$ 26.06	\$ 30.28
Internal fuel allocation ⁽¹⁾	2.68	3.07	2.38	2.62	2.67	3.16	2.24	2.60
Total bitumen production expenses	\$ 30.81	\$ 35.33	\$ 36.73	\$ 40.47	\$ 29.95	\$ 35.47	\$ 28.30	\$ 32.88
Upgrading ⁽²⁾		\$ 10.97		\$ 12.40		\$ 9.93		\$ 10.35
Less: internal fuel allocation ⁽¹⁾		(3.07)		(2.62)		(3.16)		(2.60)
Total upgrading expenses		\$ 7.90		\$ 9.78		\$ 6.77		\$ 7.75
Total operating expenses		\$ 43.23		\$ 50.25		\$ 42.24		\$ 40.63
(thousands of barrels per day)								
Syncrude production volumes	313	273	263	239	316	267	310	267
Canadian Oil Sands sales volumes		100		89		98		99

⁽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 \$3.41 per GJ and \$3.20 per GJ in the three and six months ended June 30, 2013, respectively, and \$1.79 per GJ and \$2.04 per GJ in the three and six months ended June 30, 2012, respectively. Diesel prices averaged \$0.87 per litre and \$0.89 per litre in the three and six months ended June 30, 2013, respectively, and \$0.83 per litre and \$0.89 per litre in the three and six months ended June 30, 2012, respectively.

⁽²⁾Upgrading expenses include the production and maintenance expenses associated with processing and upgrading bitumen to SCO.

⁽³⁾Certain comparative period amounts have been restated to conform to the current period presentation.

Crown Royalties

Crown royalties increased to \$28 million, or \$3.03 per barrel, in the second quarter of 2013, from \$16 million, or \$2.06 per barrel, in the second quarter of 2012 due to higher bitumen volumes and prices partially offset by increases in deductible capital expenditures. On a year-to-date basis, Crown royalties decreased to \$51 million, or \$2.86 per barrel, in 2013 from \$112 million, or \$6.25 per barrel, in the comparative 2012 period due primarily to increases in deductible capital expenditures in 2013. The higher capital expenditures in 2013 reflect spending on capital projects to replace or relocate Syncrude mine trains and to support tailings management plans.

The Syncrude Royalty Amending Agreement requires that bitumen be valued by a formula that references the value of bitumen based on a Canadian heavy oil reference price adjusted to reflect quality and location differences between Syncrude's bitumen and the Canadian reference price bitumen. In addition, the agreement provides that a minimum bitumen value, or "floor price", may be imposed in circumstances where Canadian heavy oil prices are temporarily suppressed relative to North American heavy oil prices.

Canadian Oil Sands' share of the royalties recognized for the period from January 1, 2009 to June 30, 2013 reflect management's best estimate of both reasonable quality and transportation deductions and adjustments to reflect the "floor price". However, the Syncrude owners and the Alberta government are disputing the basis for the quality, transportation and "floor price" adjustments. Under alternate assumptions, Canadian Oil Sands' share of Crown royalties for this period could be as much as \$60 million (on an after-tax basis) more than the amounts recognized.

The Syncrude owners and the Alberta government continue to discuss these matters, but if such discussions do not result in an agreed upon solution, either party may seek judicial determination of the matter. The cumulative impact, if any, of such discussions or judicial determination, as applicable, would be recognized and impact both net income and cash flow from operations accordingly.

Development Expenses

Development expenses totalled \$37 million and \$63 million in the second quarter and first half of 2013, respectively, compared with \$26 million and \$50 million in the comparative 2012 periods. Development expenses consist primarily of expenditures relating to capital programs, which are expensed, such as pre-feasibility engineering, technical and support services, research, evaluation drilling and regulatory and stakeholder consultation expenditures. Development expenses can vary from period to period depending on the number of projects underway and the development stage of the projects.

Depreciation and Depletion Expense

Depreciation and depletion expense increased to \$103 million and \$225 million in the second quarter and first half of 2013, respectively, from \$93 million and \$188 million in the comparative 2012 periods, reflecting:

- changes made to the estimated useful lives of certain assets; and
- new depreciation charges for assets related to the Syncrude Emissions Reduction (SER) project.

Net Finance Expense

(\$ millions)	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
Interest costs on long-term debt ⁽¹⁾	\$ 31	\$ 30	\$ 57	\$ 51
Less capitalized interest on long-term debt	(28)	(21)	(51)	(41)
Interest expense on long-term debt	\$ 3	\$ 9	\$ 6	\$ 10
Interest expense on employee future benefits	4	4	8	8
Accretion of asset retirement obligation	6	7	12	13
Net finance expense	\$ 13	\$ 20	\$ 26	\$ 31

⁽¹⁾ Interest costs on long-term debt are net of interest income of \$3 million and \$8 million for the three and six months ended June 30, 2013 and \$3 million and \$5 million for the three and six months ended June 30, 2012, respectively.

Interest costs on long-term debt were higher in the first half of 2013 relative to the comparative 2012 period as a result of the U.S. \$700 million debt issued on March 29, 2012. Interest expense on long-term debt is lower in the second quarter and first half of 2013, relative to the comparative 2012 periods, because a higher portion of interest costs were capitalized in 2013 as cumulative capital expenditures on qualifying assets rose.

Foreign Exchange (Gain) Loss

(\$ millions)	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
Foreign exchange (gain) loss - long-term debt	\$ 65	\$ 36	\$ 102	\$ 16
Foreign exchange (gain) loss - other	(20)	(10)	(29)	(6)
Total foreign exchange (gain) loss	\$ 45	\$ 26	\$ 73	\$ 10

Foreign exchange gains/losses are primarily the result of revaluations of our U.S. dollar-denominated long-term debt caused by fluctuations in U.S./Cdn dollar exchange rates.

The foreign exchange losses on long-term debt in 2013 were the result of a weakening Canadian dollar to U.S. \$0.95 at June 30, 2013 from U.S. \$0.98 at March 31, 2013 and U.S. \$1.01 at December 31, 2012. The foreign exchange losses in 2012 were mainly the result of a weakening Canadian dollar from U.S. \$1.00 at March 29, 2012, when U.S. \$700 million of Senior Notes were issued, to U.S. \$0.98 at June 30, 2012.

The foreign exchange gains on other items reflect the impact of the weakening Canadian dollar on cash held in U.S. dollars and U.S. dollar-denominated accounts receivable balances.

Tax Expense

	Three Months Ended		Six Months Ended	
	June 30		June 30	
(\$ millions)	2013	2012	2013	2012
Current tax expense	\$ 90	\$ 20	\$ 180	\$ 20
Deferred tax expense (recovery)	(16)	19	(38)	118
Total tax expense	\$ 74	\$ 39	\$ 142	\$ 138

Total tax expense increased in the 2013 second quarter because earnings before tax were higher than in the 2012 second quarter.

Current taxes increased in 2013 primarily because:

- tax pools sheltered 2012 income from current taxes; and
- taxes on a portion of income generated in the Corporation's partnership in 2012 were deferred to 2013.

Asset Retirement Obligation

Six months ended (\$ millions)	June 30 2013
Asset retirement obligation, beginning of period	\$ 1,102
Increase in risk-free interest rate	(170)
Accretion expense	12
Reclamation expenditures	(39)
Asset retirement obligation, end of period	\$ 905
Less current portion	(44)
Non-current portion	\$ 861

Canadian Oil Sands' asset retirement obligation decreased from \$1,102 million at December 31, 2012 to \$905 million at June 30, 2013, due primarily to a 75 basis point increase in the interest rate used to discount future reclamation and closure expenditures, as well as \$39 million of reclamation spending during the period.

Pension and Other Post-Employment Benefit Plans

The Corporation's share of the estimated unfunded portion of Syncrude Canada Ltd.'s ("Syncrude Canada") pension and other post-employment benefit plans decreased to \$412 million at June 30, 2013 from \$438 million at December 31, 2012, reflecting contributions to the plans in excess of the current period costs.

Summary of Quarterly Results

	2013			2012 ⁽⁶⁾				2011 ⁽⁶⁾	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	
Sales ⁽¹⁾ (\$ millions)	\$ 921	\$ 828	\$ 929	\$ 941	\$ 740	\$ 956	\$ 884	\$ 989	
Net income (\$ millions)	\$ 219	\$ 177	\$ 219	\$ 335	\$ 101	\$ 318	\$ 232	\$ 242	
Per Share, Basic & Diluted	\$ 0.45	\$ 0.37	\$ 0.45	\$ 0.69	\$ 0.21	\$ 0.66	\$ 0.48	\$ 0.50	
Cash flow from operations ⁽²⁾ (\$ millions)	\$ 343	\$ 275	\$ 418	\$ 470	\$ 245	\$ 454	\$ 363	\$ 512	
Per Share ⁽²⁾	\$ 0.71	\$ 0.57	\$ 0.86	\$ 0.97	\$ 0.51	\$ 0.94	\$ 0.75	\$ 1.06	
Dividends (\$ millions)	\$ 169	\$ 170	\$ 169	\$ 170	\$ 170	\$ 145	\$ 146	\$ 145	
Per Share	\$ 0.35	\$ 0.35	\$ 0.35	\$ 0.35	\$ 0.35	\$ 0.30	\$ 0.30	\$ 0.30	
Daily average sales volumes ⁽³⁾ (bbls)	100,094	95,683	111,669	113,331	89,460	108,108	91,259	109,260	
Realized SCO selling price (\$/bbl)	\$ 100.90	\$ 96.11	\$ 89.99	\$ 89.89	\$ 90.59	\$ 97.07	\$ 104.78	\$ 97.89	
WTI ⁽⁴⁾ (average \$US/bbl)	\$ 94.17	\$ 94.36	\$ 88.23	\$ 92.20	\$ 93.35	\$ 103.03	\$ 94.06	\$ 89.54	
SCO premium (discount) to WTI (\$/bbl)	\$ 4.69	\$ 0.88	\$ 2.43	\$ (2.09)	\$ (5.31)	\$ (5.89)	\$ 8.51	\$ 9.77	
Operating expenses ⁽⁵⁾ (\$/bbl)	\$ 43.23	\$ 41.20	\$ 38.76	\$ 36.07	\$ 50.25	\$ 32.68	\$ 46.88	\$ 37.19	
Purchased natural gas price (\$/GJ)	\$ 3.41	\$ 2.95	\$ 3.02	\$ 2.00	\$ 1.79	\$ 2.23	\$ 3.19	\$ 3.51	
Foreign exchange rates (\$US/\$Cdn)									

Average	\$	0.98	\$	0.99	\$	1.01	\$	1.00	\$	0.99	\$	1.00	\$	0.98	\$	1.02
Quarter-end	\$	0.95	\$	0.98	\$	1.01	\$	1.02	\$	0.98	\$	1.00	\$	0.98	\$	0.96

(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 the amendments to International Accounting Standard ("IAS") 19, Employee Benefits. Net income and operating expenses in 2011 have not been adjusted. Additional information on the amendments to IAS 19 is provided in the "Changes in Accounting Policies" section of this MD&A.

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

- fluctuations in realized selling prices have affected the Corporation's sales and Crown royalties. Monthly average WTI prices have ranged from U.S. \$82 per barrel to U.S. \$106 per barrel, and the monthly average differentials between our realized selling price and Canadian dollar WTI prices have ranged from a \$14 per barrel premium to a \$17 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 reduced quarterly production volumes and revenues and increased operating expenses;
- fluctuations in natural gas prices have affected operating expenses and Crown royalties;
- increased spending on capital projects to replace or relocate Syncrude mining trains and to support tailings management plans has reduced Crown royalties; and
- increases in current taxes in 2013 have reduced cash flow from operations. Prior to 2013, tax pools sheltered the Corporation's income from significant current taxes. In addition, taxes on a portion of the income generated in the Corporation's partnership in 2012 were deferred to 2013.

Quarterly variances in net income and cash flow from operations are caused mainly by fluctuations in realized selling prices, production and sales volumes, operating expenses, natural gas prices, and current tax expense. Net income is also impacted by foreign exchange gains and losses, depreciation and depletion, and deferred tax expense. The dividends paid to Shareholders are also dependent on the factors impacting cash flow from operations as well as the amount and timing of capital expenditures.

While the supply/demand balance for crude oil affects selling prices, the impact of this relationship has not displayed significant seasonality. Natural gas prices are typically higher in winter months as heating demand rises, but this seasonality is influenced by weather conditions and North American natural gas inventory levels. Technological developments in North American natural gas production have significantly increased production levels and impacted natural gas prices. These conditions may persist for the next several years.

Syncrude production levels may not display seasonal patterns or trends. While maintenance and turnaround activities are typically scheduled to avoid the winter months, the exact timing of unit outages cannot be precisely scheduled and unplanned outages may occur. The costs of major turnarounds are capitalized as property, plant and equipment and depreciated over the period until the next scheduled turnaround. The costs of all other turnarounds and maintenance activities are expensed in the period incurred, which can result in volatility in quarterly operating expenses. All turnarounds and maintenance activities impact per barrel operating expenses because sales volumes are lower in the periods when this work is occurring.

Capital Expenditures

(\$ millions)	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
Major Projects				
Mildred Lake Mine Train Replacement	\$ 115	\$ 88	\$ 228	\$ 131
Reconstruct crushers, surge facilities, and slurry prep facilities to support tailings storage requirements				
Aurora North Mine Train Relocation	57	23	88	31
Relocate crushers, surge facilities, and slurry prep facilities to support tailings storage requirements				
Aurora North Tailings Management	32	20	45	39

Construct a composite tails (CT) plant at the Aurora North mine to process tailings				
Centrifuge Tailings Management	47	12	84	19
Construct a centrifuge plant at the Mildred Lake mine to process tailings				
Capital expenditures on major projects	\$ 251	\$ 143	\$ 445	\$ 220
Regular maintenance				
Capitalized turnaround costs	\$ 19	\$ 61	\$ 21	\$ 67
Other ⁽¹⁾	71	67	120	105
Capital expenditures on regular maintenance	\$ 90	\$ 128	\$ 141	\$ 172
Capitalized interest	\$ 28	\$ 21	\$ 51	\$ 41
Total capital expenditures	\$ 369	\$ 292	\$ 637	\$ 433

⁽¹⁾ Other regular maintenance capital includes expenditures to relocate tailings facilities as well as other infrastructure projects.

Capital expenditures increased to \$369 million and \$637 million in the second quarter and first half of 2013, respectively, from \$292 million and \$433 million in the comparative 2012 periods, primarily due to spending on the major projects at Syncrude. More information on the major projects is provided in the "Outlook" section of this MD&A.

The decrease in capitalized turnaround costs reflects differences in the timing of turnaround activity. As the Coker 8-1 turnaround commenced in early June 2013 and is expected to continue until early August, only a portion of the total costs are reflected in the 2013 second quarter. By comparison, the Coker 8-3 turnaround commenced in early May 2012 and was substantially complete at June 30, 2012. As such, most of the costs were recognized in the 2012 second quarter.

The increase in other regular maintenance capital costs in the first half of 2013, relative to the 2012 comparative period, reflects increased spending on projects to relocate tailings facilities.

The increase in capitalized interest costs reflects higher cumulative capital expenditures on qualifying assets.

Contractual Obligations and Commitments

Canadian Oil Sands' contractual obligations and commitments are summarized in the 2012 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. There are no significant new contractual obligations or commitments relative to the 2012 annual disclosure.

Dividends

On July 30, 2013, 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 30, 2013 to shareholders of record on August 23, 2013. During the first half of 2013, the Corporation paid dividends to shareholders totalling \$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 levels are established with the intent of absorbing short-term market volatility over several quarters. Dividend levels also recognize our intention to fund the current major projects primarily with cash flow from operations and existing cash balances, while maintaining a strong balance sheet to reduce exposure to potential oil price declines, capital cost increases or major operational upsets.

Liquidity and Capital Resources

	June 30	December 31
As at (\$ millions, except % amounts)	2013	2012
Long-term debt ^{(1),(2)}	\$ 1,897	\$ 1,794
Cash and cash equivalents	(1,416)	(1,553)

Net debt ^{(1),(3)}	\$ 481	\$ 241
Shareholders' equity	\$ 4,573	\$ 4,515
Total net capitalization ^{(1),(4)}	\$ 5,054	\$ 4,756
Total capitalization ^{(1),(5)}	\$ 6,470	\$ 6,309
Net debt-to-total net capitalization ^{(1),(6)} (%)	10	5
Long-term debt-to-total capitalization ^{(1),(7)} (%)	29	28

⁽¹⁾ Additional GAAP financial measure.

⁽²⁾ Includes current and non-current portions of long-term debt.

⁽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.

Net debt, comprised of current and non-current portions of long-term debt less cash and cash equivalents, increased to \$481 million at June 30, 2013 from \$241 million at December 31, 2012, as existing cash balances were used to fund capital expenditures and dividend payments in excess of cash flow from operations. In addition, a weakening Canadian dollar from December 31, 2012 to June 30, 2013 increased the Canadian equivalent value of Canadian Oil Sands' long-term debt, all of which is denominated in U.S. dollars. As a result, net debt-to-total net capitalization increased to 10 per cent at June 30, 2013 from five per cent at December 31, 2012.

Shareholders' equity increased to \$4,573 million at June 30, 2013 from \$4,515 million at December 31, 2012, as net income exceeded dividends in the first half of 2013.

During the second quarter of 2013, Canadian Oil Sands extended the terms of its credit facilities by one year. The \$1,500 million operating credit facility was extended to June 1, 2017 and the \$40 million extendible revolving term credit facility was extended to June 30, 2015. No amounts were drawn against these facilities at June 30, 2013 or December 31, 2012.

The U.S. \$300 million of Senior Notes, which mature on August 15, 2013, will be repaid from cash on hand at June 30, 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 29 per cent at June 30, 2013, a significant increase in debt or decrease in equity would be required to negatively impact the Corporation's financial flexibility.

We expect cash levels to decrease over the next two years as we fund the major capital projects and repay our August, 2013 debt maturity. As a result, and based on the assumptions in our 2013 Outlook, our net debt levels are expected to rise to \$1 billion to \$2 billion by the end of 2014, coincident with reduced capital expenditure risk from the substantial completion of our major capital projects.

Shareholders' Capital and Trading Activity

The Corporation's shares trade on the Toronto Stock Exchange under the symbol COS. On June 30, 2013, the Corporation had a market capitalization of approximately \$9.4 billion with 484.6 million shares outstanding and a closing price of \$19.47 per Share. The following table summarizes the trading activity for the second quarter of 2013.

Canadian Oil Sands Ltd. - Trading Activity

Second Quarter 2013	April 2013	May 2013	June 2013

Share price				
High	\$ 21.17	\$ 21.17	\$ 20.93	\$ 20.34
Low	\$ 18.62	\$ 18.62	\$ 19.37	\$ 18.85
Close	\$ 19.47	\$ 19.79	\$ 20.07	\$ 19.47
Volume of Shares traded (millions)	112.7	27.2	54.3	31.2
Weighted average Shares outstanding (millions)	484.6	484.6	484.6	484.6

Changes in Accounting Policies

In June 2011, the International Accounting Standards Board ("IASB") amended International Accounting Standard ("IAS") 19, *Employee Benefits*, addressing the recognition and measurement of defined benefit pension expense and termination benefits and disclosures for all employee benefits. The key amendments are as follows:

- Actuarial gains and losses, which are now referred to as re-measurements, are recognized immediately in "other comprehensive income" ("OCI"), eliminating the choice between immediate recognition through net income or OCI, or deferral using the corridor approach. This change does not impact Canadian Oil Sands as the Corporation previously recognized actuarial gains and losses immediately through OCI.
- The expected rate of return on plan assets is no longer calculated. Instead, the estimated rate of return on plan assets is now the same rate used to accrete the discounted accrued benefit obligation. The interest cost component of the pension expense, which previously represented accretion of the discounted accrued benefit obligation, now represents accretion of the net accrued benefit liability (the accrued benefit obligation net of the fair value of plan assets).
- The interest cost component of pension expense, which was previously presented within operating expenses, is now presented within net finance expense.

Canadian Oil Sands has applied the amendments effective January 1, 2013 in accordance with the applicable transitional provisions with no material impact to the Corporation's financial results. Additional information is provided in Note 3 to the unaudited consolidated financial statements for the three and six months ended June 30, 2013 and June 30, 2012.

2013 Outlook

	As of July 30 2013	As of April 30 2013
<i>(millions of Canadian dollars, except volume and per barrel amounts)</i>		
Operating assumptions		
Syncrude production (mmbbls)	102	105
Canadian Oil Sands sales (mmbbls)	37.5	38.6
Sales, net of crude oil purchases and transportation	\$ 3,518	\$ 3,280
Operating expenses	\$ 1,507	\$ 1,482
Operating expenses per barrel	\$ 40.21	\$ 38.41
Crown royalties	\$ 104	\$ 109
Current taxes	\$ 400	\$ 350
Cash flow from operations ⁽¹⁾	\$ 1,260	\$ 1,097
Capital expenditure assumptions		
Major projects	\$ 828	\$ 839
Regular maintenance	\$ 349	\$ 360
Capitalized interest	\$ 102	\$ 99
Total capital expenditures	\$ 1,279	\$ 1,298
Business environment assumptions		
West Texas Intermediate (U.S.\$/bbl)	\$ 90.00	\$ 85.00
Premium to average Cdn\$ WTI prices (Cdn\$/bbl)	\$ 2.00	\$ -
Foreign exchange rate (U.S.\$/Cdn\$)	\$ 0.98	\$ 1.00
AECO natural gas (Cdn\$/GJ)	\$ 3.50	\$ 3.50

⁽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 estimated 2013 sales, net of crude oil purchases and transportation expense, to \$3,518

million due to an increase in the forecast realized selling price partially offset by a decrease in estimated production volumes.

The forecast realized selling price for 2013 has increased \$9 per barrel to \$94 per barrel and assumes a U.S. \$90 per barrel WTI oil price, a \$2.00 per barrel SCO premium to Canadian dollar WTI, and a foreign exchange rate of \$0.98 U.S./Cdn.

We have adjusted our 2013 Syncrude production range to 100 to 104 million barrels with a single-point estimate of 102 million barrels (279,500 barrels per day). Net to Canadian Oil Sands, the single-point estimate is equivalent to 37.5 million barrels (102,700 barrels per day). The production outlook reflects actual results to date, the impact of the Coker 8-1 turnaround, with the advancement resulting in a larger production impact, and more reliable operations in the second half of the year.

We estimate 2013 operating expenses of \$1,507 million, or \$40.21 per barrel, reflecting actual costs incurred to date and a natural gas price assumption of \$3.50 per gigajoule.

We estimate 2013 Crown royalties of \$104 million. Mainly as a result of capital spending on major projects, allowable deductible costs for royalty purposes in 2013 are anticipated to exceed deemed bitumen revenues. As a result, we are estimating minimum Crown royalties at one per cent of gross deemed bitumen revenues (instead of 25 per cent of net deemed bitumen revenues) in 2013. We continue to recognize the transition and upgrader growth capital recapture royalties in 2013.

Our estimate of 2013 current taxes has increased to \$400 million, primarily reflecting the increase in the forecast sales.

Based on these assumptions, estimated 2013 cash flow from operations has increased to \$1,260 million, or \$2.60 per Share.

We estimate 2013 capital expenditures of \$1,279 million, comprised of \$828 million of spending on major projects, \$349 million in regular maintenance of the business and other projects, and \$102 million in capitalized interest.

We expect cash levels to decrease over the next two years as we fund the major capital projects and repay the debt maturity in August, 2013. As a result, net debt levels are expected to rise to \$1 billion to \$2 billion by the end of 2014, coincident with reduced capital expenditure risk from the substantial completion of the major capital 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 30, 2013)

Variable	Annual Sensitivity	Cash Flow from Operations Increase	
		\$ millions (1),(2)	\$ / Share (1),(2)
Syncrude operating expense decrease	Cdn\$1.00/bbl	\$ 28	\$ 0.06
Syncrude operating expense decrease	Cdn\$50 million	\$ 14	\$ 0.03
WTI crude oil price increase	U.S.\$1.00/bbl	\$ 29	\$ 0.06
Syncrude production increase	2 million bbls	\$ 52	\$ 0.11
Canadian dollar weakening	U.S.\$0.01/Cdn\$	\$ 26	\$ 0.05
AECO natural gas price decrease	Cdn\$0.50/GJ	\$ 18	\$ 0.04

⁽¹⁾Canadian Oil Sands anticipates recording approximately \$400 million in current taxes in 2013. These sensitivities are after the impact of taxes.

⁽²⁾These sensitivities assume Canadian Oil Sands remains in minimum royalty in 2013.

The 2013 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 costs for years after 2013 will be provided on an annual basis when we disclose the budgets for those years, and are currently estimated to average approximately \$10 per barrel over the next few years.

Major Projects - Total Project Cost and Schedule Estimates⁽¹⁾

		Total Cost Estimate (\$ billions)	Total Cost Estimate Accuracy (%)	Estimated % Complete at June 30, 2013 ⁽²⁾	Target In-Service Date
Mildred Lake Mine Train Replacement	Syncrude COS share	\$ 4.2 1.6	+15%/-15 %	55 %	Q4 2014
Aurora North Mine Train Relocation	Syncrude COS share	\$ 1.0 0.4	+15%/-15 %	80 %	Q1 2014
Aurora North Tailings Management	Syncrude COS share	\$ 0.8 0.3	+15%/-15 %	90 %	Q4 2013
Centrifuge Tailings Management	Syncrude COS share	\$ 1.9 0.7	+15%/-15 %	25 %	H1 2015

Major Projects - Annual Spending Profile⁽¹⁾

(\$ billions)	Spent to to Dec 31, 2012	2013	2014	2015	Total
Syncrude	\$ 2.6	\$ 2.4	\$ 2.3	\$ 0.6	\$ 7.9
Canadian Oil Sands share	\$ 1.0	\$ 0.9	\$ 0.9	\$ 0.2	\$ 3.0

⁽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.

The first of the two mine train relocations at Aurora North was completed earlier this month, and the mine train is now operating at its new site. The relocation of the second mine train is underway and is anticipated to be complete in the fourth quarter of 2013, with close-out and clean-up work continuing into the first quarter of 2014.

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 21, 2013 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)

	Three Months Ended June 30		Six Months Ended June 30	
(millions of Canadian dollars, except per Share and Share volume amounts)	2013	2012	2013	2012
Sales (Note 17)	\$ 1,036	\$ 825	\$ 1,997	\$ 1,899
Crown royalties (Note 15)	(28)	(16)	(51)	(112)
Revenues	\$ 1,008	\$ 809	\$ 1,946	\$ 1,787
Expenses				
Operating (Note 3)	\$ 394	\$ 409	\$ 749	\$ 730
Development	37	26	63	50
Crude oil purchases and transportation (Note 17)	115	85	248	203

Administration	6	8	16	14
Insurance	2	2	8	4
Depreciation and depletion	103	93	225	188
	\$ 657	\$ 623	\$ 1,309	\$ 1,189
Earnings from operating activities	\$ 351	\$ 186	\$ 637	\$ 598
Foreign exchange loss (Note 9)	45	26	73	10
Net finance expense (Notes 3 and 10)	13	20	26	31
Earnings before taxes	\$ 293	\$ 140	\$ 538	\$ 557
Tax expense (Notes 3 and 11)	74	39	142	138
Net income	\$ 219	\$ 101	\$ 396	\$ 419
Other comprehensive loss, net of income taxes				
Items not reclassified to net income:				
Re-measurements of employee future benefit plans (Notes 3 and 8)	(14)	(30)	-	(27)
Items reclassified to net income:				
Derivative gains	-	(1)	(1)	(2)
Comprehensive income	\$ 205	\$ 70	\$ 395	\$ 390
Weighted average Shares (millions)	485	485	485	485
Shares, end of period (millions)	485	485	485	485
Net income per Share				
Basic and diluted	\$ 0.45	\$ 0.21	\$ 0.82	\$ 0.86

See Notes to Unaudited Consolidated Financial Statements

Consolidated Statements of Shareholders' Equity
(unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
(millions of Canadian dollars)	2013	2012	2013	2012
Retained earnings				
Balance, beginning of period	\$ 1,844	\$ 1,693	\$ 1,823	\$ 1,517
Net income	219	101	396	419
Re-measurements of employee future benefit plans	(14)	(30)	-	(27)
Dividends	(169)	(170)	(339)	(315)
Balance, end of period	\$ 1,880	\$ 1,594	\$ 1,880	\$ 1,594
Accumulated other comprehensive income				
Balance, beginning of period	\$ 8	\$ 11	\$ 9	\$ 12
Reclassification of derivative gains to net income	-	(1)	(1)	(2)
Balance, end of period	\$ 8	\$ 10	\$ 8	\$ 10
Shareholders' capital				
Balance, beginning of period	\$ 2,674	\$ 2,673	\$ 2,673	\$ 2,673
Issuance of shares	-	-	1	-
Balance, end of period	\$ 2,674	\$ 2,673	\$ 2,674	\$ 2,673
Contributed surplus				
Balance, beginning of period	\$ 11	\$ 9	\$ 10	\$ 8
Share-based compensation	-	-	1	1
Balance, end of period	11	9	11	9
Total Shareholders' equity	\$ 4,573	\$ 4,286	\$ 4,573	\$ 4,286

See Notes to Unaudited Consolidated Financial Statements

Consolidated Balance Sheets

(unaudited)

	June 30	December 31
As at (millions of Canadian dollars)	2013	2012
ASSETS		

Current assets			
Cash and cash equivalents	\$	1,416	\$ 1,553
Accounts receivable		284	311
Inventories		148	137
Prepaid expenses		2	9
	\$	1,850	\$ 2,010
Property, plant and equipment, net (Note 4)		8,245	8,003
Exploration and evaluation		89	89
Reclamation trust		73	69
	\$	10,257	\$ 10,171
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities (Note 5)	\$	766	\$ 704
Current portion of long-term debt		314	297
Current taxes		164	40
Current portion of employee future benefits		82	76
	\$	1,326	\$ 1,117
Employee future benefits		330	362
Other liabilities (Note 6)		90	89
Long-term debt		1,583	1,497
Asset retirement obligation (Note 7)		861	1,058
Deferred taxes		1,494	1,533
	\$	5,684	\$ 5,656
Shareholders' equity		4,573	4,515
	\$	10,257	\$ 10,171

Commitments and Contingencies (Notes 14 and 15, respectively)

See Notes to Unaudited Consolidated Financial Statements

Consolidated Statements of Cash Flows
(unaudited)

	Three Months Ended		Six Months Ended	
	June 30		June 30	
(millions of Canadian dollars)	2013	2012	2013	2012
Cash from (used in) operating activities				
Net income	\$ 219	\$ 101	\$ 396	\$ 419
Items not requiring an outlay of cash				
Depreciation and depletion	103	93	225	188
Accretion of asset retirement obligation (Note 7)	6	7	12	13
Foreign exchange loss on long-term debt (Note 9)	65	36	102	16
Deferred taxes (Note 11)	(16)	19	(38)	118
Share-based compensation	1	3	3	3
Reclamation expenditures (Note 7)	(6)	1	(39)	(42)
Change in employee future benefits and other	(29)	(15)	(43)	(16)
Cash flow from operations	\$ 343	\$ 245	\$ 618	\$ 699
Change in non-cash working capital (Note 16)	119	117	172	229
Cash from operating activities	\$ 462	\$ 362	\$ 790	\$ 928
Cash from (used in) financing activities				
Issuance of senior notes	\$ -	\$ -	\$ -	\$ 689
Issuance of shares	-	-	1	-
Dividends	(169)	(170)	(339)	(315)
Cash from (used in) financing activities	\$ (169)	\$ (170)	\$ (338)	\$ 374
Cash from (used in) investing activities				
Capital expenditures	\$ (369)	\$ (292)	\$ (637)	\$ (433)
Reclamation trust funding	(3)	(2)	(5)	(5)
Change in non-cash working capital (Note 16)	13	18	36	36
Cash used in investing activities	\$ (359)	\$ (276)	\$ (606)	\$ (402)

Foreign exchange gain on cash and cash equivalents held in foreign currency	\$	11	\$	-	\$	17	\$	-
Increase (decrease) in cash and cash equivalents	\$	(55)	\$	(84)	\$	(137)	\$	900
Cash and cash equivalents, beginning of period		1,471		1,702		1,553		718
Cash and cash equivalents, end of period	\$	1,416	\$	1,618	\$	1,416	\$	1,618
Cash and cash equivalents consist of:								
Cash	\$	712	\$	105	\$	712	\$	105
Short-term investments		704		1,513		704		1,513
	\$	1,416	\$	1,618	\$	1,416	\$	1,618

Supplementary Information (Note 16)

See Notes to Unaudited Consolidated Financial Statements

Notes to Unaudited Consolidated Financial Statements For the Three and Six Months Ended June 30, 2013

*(Tabular amounts expressed in millions of Canadian dollars, except where otherwise noted)***1) Nature of Operations**

[Canadian Oil Sands Ltd.](#) ("Canadian Oil Sands" or the "Corporation") was incorporated in 2010 under the laws of the Province of Alberta, Canada pursuant to a plan of arrangement effecting the reorganization from an income trust into a corporate structure effective December 31, 2010.

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 a joint operation jointly controlled by seven owners. Decisions about Syncrude's relevant activities require unanimous consent of the owners. Each owner takes its proportionate share of production in kind, and funds its proportionate share of Syncrude's operating development and capital costs on a daily basis. The Corporation also 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 the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). The CICA Handbook incorporates International Financial Reporting Standards ("IFRS") and publicly accountable enterprises, such as the Corporation, are required to apply such standards. These unaudited interim financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements and International Accounting Standard ("IAS") 34, *Interim Financial Reporting*, and the accounting policies applied in these interim unaudited consolidated financial statements are based on IFRS as issued, outstanding and effective on June 30, 2013.

Certain disclosures that are normally required to be included in the notes to the annual audited consolidated financial statements have been condensed or omitted. 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, 2012.

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, 2012 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.

Employee Future Benefits

In June 2011, the International Accounting Standards Board ("IASB") amended International Accounting Standard ("IAS") 19, *Employee Benefits*, addressing the recognition and measurement of defined benefit pension expense and termination benefits and disclosures for all employee benefits. The key amendments are as follows:

- Actuarial gains and losses, which are now referred to as re-measurements, are recognized immediately in "other comprehensive income" ("OCI"), eliminating the choice between immediate recognition through net income or OCI, or deferral using the corridor approach. This change does not impact Canadian Oil Sands as the Corporation previously recognized actuarial gains and losses immediately through OCI.
- The expected rate of return on plan assets is no longer calculated. Instead, the estimated rate of return on plan assets is now the same rate used to accrete the discounted accrued benefit obligation. The interest cost component of the pension expense, which previously represented accretion of the discounted accrued benefit obligation, now represents accretion of the net accrued benefit liability (the accrued benefit obligation net of the fair value of plan assets).
- The interest cost component of pension expense, which was previously presented within operating expenses, is now presented within net finance expense.

Canadian Oil Sands has applied the amendments effective January 1, 2013 in accordance with the applicable transitional provisions. Certain amounts reported in the Corporation's Consolidated Statements of Income and Comprehensive Income have been adjusted as follows:

(\$ millions)	Three Months Ended June 30, 2013			Six Months Ended June 30, 2013		
	Before	After		Before	After	
	Adjustments	Adjustments	Adjustments	Adjustments	Adjustments	Adjustments
Operating expenses	\$ 394	\$ -	\$ 394	\$ 749	\$ -	\$ 749
Net finance expense	\$ 9	\$ 4	\$ 13	\$ 18	\$ 8	\$ 26
Tax expense	\$ 75	\$ (1)	\$ 74	\$ 144	\$ (2)	\$ 142
Net income	\$ 222	\$ (3)	\$ 219	\$ 402	\$ (6)	\$ 396
Re-measurements of employee future benefit plans, net of tax	\$ (17)	\$ 3	\$ (14)	\$ (6)	\$ 6	\$ -
Earnings per Share	\$ 0.46	\$ (0.01)	\$ 0.45	\$ 0.83	\$ (0.01)	\$ 0.82

(\$ millions)	Three Months Ended June 30, 2012			Six Months Ended June 30, 2012		
	Before	After		Before	After	
	Adjustments	Adjustments	Adjustments	Adjustments	Adjustments	Adjustments
Operating expenses	\$ 413	\$ (4)	\$ 409	\$ 734	\$ (4)	\$ 730
Net finance expense	\$ 16	\$ 4	\$ 20	\$ 23	\$ 8	\$ 31
Tax expense	\$ 39	\$ -	\$ 39	\$ 139	\$ (1)	\$ 138
Net income	\$ 101	\$ -	\$ 101	\$ 422	\$ (3)	\$ 419
Re-measurements of employee future benefit plans, net of tax	\$ (30)	\$ -	\$ (30)	\$ (30)	\$ 3	\$ (27)
Earnings per Share	\$ 0.21	\$ -	\$ 0.21	\$ 0.87	\$ (0.01)	\$ 0.86

Consolidation

In May 2011, the IASB issued IFRS 10, *Consolidated Financial Statements*; IFRS 11, *Joint Arrangements*, to replace International Accounting Standard ("IAS") 31, *Interests in Joint Ventures*; IFRS 12, *Disclosure of Interests in Other Entities*; and amendments to IAS 27, *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*.

Canadian Oil Sands has applied these new standards effective January 1, 2013 in accordance with the transitional provisions. IFRS 10, which establishes principles for the presentation and preparation of consolidated financial statements, has not impacted Canadian Oil Sands' financial statements or disclosures. IFRS 11 eliminates the accounting policy choice between proportionate consolidation and equity method accounting for joint ventures available under IAS 31 and, instead, mandates one of these two methodologies based on the economic substance of the joint arrangement. Canadian Oil Sands has determined that its investments in Syncrude and Syncrude Canada are considered joint operations under the new standard and continues to recognize its proportionate share of the assets, liabilities, revenues, expenses, and commitments of both. IFRS 12 requires entities to disclose information about the nature of their interests in joint ventures, which has resulted in additional disclosures in Note 1, Nature of Operations.

Fair Value Measurement

In May 2011, the IASB issued IFRS 13, *Fair Value Measurements*, which establishes a single source of guidance for fair value measurements and related disclosures. Canadian Oil Sands has applied this new standard effective January 1, 2013 in accordance with the transitional provisions, resulting in new fair value disclosures in Note 13, Financial Instruments.

Financial Instruments: Disclosures

In December 2011, the IASB issued amendments to IFRS 7, *Financial Instruments: Disclosures*, requiring entities to disclose information about the effect, or potential effect, of netting arrangements on an entity's financial position. Canadian Oil Sands has applied these amendments effective January 1, 2013 in accordance with their transitional provisions, resulting in additional disclosures in Note 13, Financial Instruments.

Production Stripping Costs

In October 2011, the IASB issued International Financial Reporting Interpretations Committee ("IFRIC") Interpretation 20, *Stripping Costs in the Production Phase of a Surface Mine*, which clarifies the accounting for costs associated with waste removal in surface mining during the production phase of a mine. Canadian Oil Sands has applied this new interpretation effective January 1, 2013 in accordance with the transitional provisions and there has been no impact on Canadian Oil Sands' financial statements or disclosures.

4) Property, Plant and Equipment, Net

(\$ millions)	Six Months Ended June 30, 2013								
	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, 2013	\$ 5,300	\$ 1,397	\$ 686	\$ 324	\$ 1,024	\$ 166	\$ 1,501	\$ 392	\$ 10,790
Additions	-	-	6	-	-	21	610	-	637
Change in asset retirement costs	-	-	-	-	(170)	-	-	-	(170)
Retirements	(22)	-	(16)	-	-	(47)	-	-	(85)
Reclassifications ⁽¹⁾	11	1	-	5	17	-	(34)	-	-
Balance at June 30, 2013	\$ 5,289	\$ 1,398	\$ 676	\$ 329	\$ 871	\$ 140	\$ 2,077	\$ 392	\$ 11,172
Accumulated depreciation									
Balance at January 1, 2013	\$ 1,447	\$ 539	\$ 320	\$ 107	\$ 180	\$ 73	\$ -	\$ 121	\$ 2,787
Depreciation	109	32	26	4	23	28	-	3	225

Retirements	(22)	-	(16)	-	-	(47)	-	-	(85)
Reclassifications ⁽¹⁾	-	-	-	-	-	-	-	-	-
Balance at June 30, 2013	\$ 1,534	\$ 571	\$ 330	\$ 111	\$ 203	\$ 54	\$ -	\$ 124	\$ 2,927
Net book value at June 30, 2013	\$ 3,755	\$ 827	\$ 346	\$ 218	\$ 668	\$ 86	\$ 2,077	\$ 268	\$ 8,245

⁽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, 2013, interest costs of \$28 million and \$51 million, respectively, were capitalized and included in property, plant and equipment (three and six months ended June 30, 2012 - \$21 million and \$41 million, respectively) based on a 6.5 per cent interest capitalization rate for the three and six months ended June 30, 2013 (6.5 per cent and 6.9 per cent, respectively, for the three and six months ended June 30, 2012).

5) Accounts Payable and Accrued Liabilities

	June 30 2013	December 31 2012
(\$ millions)		
Trade payables	\$ 551	\$ 498
Crown royalties	221	215
Current portion of asset retirement obligation	44	44
Interest payable	31	29
	\$ 847	\$ 786
Less non-current portion of Crown royalties	(81)	(82)
Accounts payable and accrued liabilities	\$ 766	\$ 704

6) Other Liabilities

	June 30 2013	December 31 2012
(\$ millions)		
Non-current portion of Crown royalties	\$ 81	\$ 82
Other	9	7
Other liabilities	\$ 90	\$ 89

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 will be made progressively over the next 70 years and has applied a risk-free interest rate of 3.0 per cent at June 30, 2013 (December 31, 2012 - 2.25 per cent) in deriving the asset retirement obligation. The risk-free rate is based on the yield for benchmark Government of Canada long-term bonds.

	Six Months Ended June 30 2013	Year Ended December 31 2012
(\$ millions)		
Asset retirement obligation, beginning of period	\$ 1,102	\$ 1,037
Change in risk-free interest rate	(170)	68
Change in estimated reclamation and closure expenditures	-	25
Accretion expense	12	26
Reclamation expenditures	(39)	(54)
Asset retirement obligation, end of period	\$ 905	\$ 1,102
Less current portion	(44)	(44)
Non-current portion	\$ 861	\$ 1,058

The \$170 million decrease in the asset retirement obligation due to the change in the risk-free rate was recorded as a decrease in property, plant and equipment. The \$44 million current portion of the asset retirement obligation is included in accounts payable and accrued liabilities, while the \$861 million non-current portion is presented separately as a liability on the June 30, 2013 Consolidated Balance Sheet.

The total undiscounted estimated cash flows required to settle Canadian Oil Sands' share of the asset retirement obligation were \$2,065 million at June 30, 2013 (December 31, 2012 - \$2,104 million).

8) Employee Future Benefits

The Corporation's share of Syncrude Canada's defined benefit and contribution plans' costs for the three and six months ended June 30, 2013 and 2012 is based on its 36.74 per cent working interest. The costs have been recorded in operating expenses, net finance expense and other comprehensive loss as follows:

(\$ millions)	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
Operating expenses	\$ 11	\$ 12	\$ 22	\$ 21
Net finance expense	4	4	8	8
Other comprehensive loss ⁽¹⁾	19	40	1	36
Total benefit cost	\$ 34	\$ 56	\$ 31	\$ 65

⁽¹⁾The other comprehensive loss is presented net of tax on the Consolidated Statements of Income and Comprehensive Income.

9) Foreign Exchange

(\$ millions)	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
Foreign exchange (gain) loss - long-term debt	\$ 65	\$ 36	\$ 102	\$ 16
Foreign exchange (gain) loss - other	(20)	(10)	(29)	(6)
Total foreign exchange (gain) loss	\$ 45	\$ 26	\$ 73	\$ 10

10) Net Finance Expense

(\$ millions)	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
Interest costs on long-term debt ⁽¹⁾	\$ 31	\$ 30	\$ 57	\$ 51
Less capitalized interest on long-term debt	(28)	(21)	(51)	(41)
Interest expense on long-term debt	\$ 3	\$ 9	\$ 6	\$ 10
Interest expense on employee future benefits	4	4	8	8
Accretion of asset retirement obligation	6	7	12	13
Net finance expense	\$ 13	\$ 20	\$ 26	\$ 31

⁽¹⁾Interest costs on long-term debt are net of interest income of \$3 million and \$8 million for the three and six months ended June 30, 2013 and \$3 million and \$5 million for the three and six months ended June 30, 2012, respectively.

11) Tax Expense

(\$ millions)	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
Current tax expense	\$ 90	\$ 20	\$ 180	\$ 20
Deferred tax expense (recovery)	(16)	19	(38)	118
Total tax expense	\$ 74	\$ 39	\$ 142	\$ 138

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, 2013 and December 31, 2012 was as follows:

(\$ millions, except % amounts)	June 30 2013	December 31 2012
Long-term debt ^{(1),(2)}	\$ 1,897	\$ 1,794
Cash and cash equivalents	(1,416)	(1,553)

Net debt ^{(1),(3)}	\$ 481	\$ 241
Shareholders' equity	\$ 4,573	\$ 4,515
Total net capitalization ^{(1),(4)}	\$ 5,054	\$ 4,756
Total capitalization ^{(1),(5)}	\$ 6,470	\$ 6,309
Net debt-to-total net capitalization ^{(1),(6)} (%)	10	5
Long-term debt-to-total capitalization ^{(1),(7)} (%)	29	28

⁽¹⁾Additional GAAP financial measure.

⁽²⁾Includes current and non-current portions of long-term debt.

⁽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.

Net debt, comprised of current and non-current portions of long-term debt less cash and cash equivalents, increased to \$481 million at June 30, 2013 from \$241 million at December 31, 2012, as existing cash balances were used to fund capital expenditures and dividend payments in excess of cash flow from operations. In addition, a weakening Canadian dollar from December 31, 2012 to June 30, 2013 increased the Canadian equivalent value of Canadian Oil Sands' long-term debt, all of which is denominated in U.S. dollars. As a result, net debt-to-total net capitalization increased to 10 per cent at June 30, 2013 from five per cent at December 31, 2012.

Shareholders' equity increased to \$4,573 million at June 30, 2013 from \$4,515 million at December 31, 2012, as net income exceeded dividends in the first half of 2013.

The Corporation's senior notes indentures and credit facility agreements contain certain covenants which 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 29 per cent at June 30, 2013, 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, 2012.

Offsetting Financial Assets and Financial Liabilities

The carrying values of accounts receivable and accounts payable and accrued liabilities have each been reduced by \$44 million (\$25 million at December 31, 2012) 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 fair value of long-term debt, based on third-party market indications, is as follows:

As at (\$ millions)	June 30 December 31	
	2013	2012
8.2% Senior Notes due April 1, 2027 (U.S. \$73.95 million)	\$ 98	\$ 104
7.9% Senior Notes due September 1, 2021 (U.S. \$250 million)	325	332
5.8% Senior Notes due August 15, 2013 (U.S. \$300 million)	317	309
7.75% Senior Notes due May 15, 2019 (U.S. \$500 million)	632	628

4.5% Senior Notes due April 1, 2022 (U.S. \$400 million)	427	435
6.0% Senior Notes due April 1, 2042 (U.S. \$300 million)	334	350
	<u>\$ 2,133</u>	<u>\$ 2,158</u>

14) Commitments

Canadian Oil Sands' commitments are summarized in the 2012 annual consolidated financial statements 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. There are no significant new commitments relative to the 2012 annual disclosure.

15) Contingencies

Crown royalties include Canadian Oil Sands' share of amounts due under the Syncrude Royalty Amending Agreement with the Alberta government. The Syncrude Royalty Amending Agreement requires that bitumen be valued by a formula that references the value of bitumen based on a Canadian heavy oil reference price adjusted to reflect quality and location differences between Syncrude's bitumen and the Canadian reference price bitumen. In addition, the agreement provides that a minimum bitumen value, or "floor price", may be imposed in circumstances where Canadian heavy oil prices are temporarily suppressed relative to North American heavy oil prices.

Canadian Oil Sands' share of the royalties recognized for the period from January 1, 2009 to June 30, 2013 reflect management's best estimate of both reasonable quality and transportation deductions and adjustments to reflect the "floor price." However, the Syncrude owners and the Alberta government are disputing the basis for the quality, transportation and "floor price" adjustments. Under alternate assumptions, Canadian Oil Sands' share of Crown royalties for this period could be as much as \$60 million (on an after-tax basis) more than the amounts recognized.

The Syncrude owners and the Alberta government continue to discuss these matters, but if such discussions do not result in an agreed upon solution, either party may seek judicial determination of the matter. The cumulative impact, if any, of such discussions or judicial determination, as applicable, would be recognized and impact both net income and cash flow from operations accordingly.

16) Supplementary Information

a) Change in Non-Cash Working Capital

(\$ millions)	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
Operating activities:				
Accounts receivable ("AR")	\$ 31	\$ 106	\$ 27	\$ 157
Inventories	12	14	(11)	7
Prepaid expenses	4	4	7	9
Accounts payable and accrued liabilities ("AP")	7	(5)	62	75
Current taxes	78	20	124	20
Less: AP and AR changes reclassified to investing and other	(13)	(22)	(37)	(39)
Change in operating non-cash working capital	<u>\$ 119</u>	<u>\$ 117</u>	<u>\$ 172</u>	<u>\$ 229</u>
Investing activities:				
Accounts payable and accrued liabilities	\$ 13	\$ 18	\$ 36	\$ 36
Change in investing non-cash working capital	<u>\$ 13</u>	<u>\$ 18</u>	<u>\$ 36</u>	<u>\$ 36</u>
Change in total non-cash working capital	<u>\$ 132</u>	<u>\$ 135</u>	<u>\$ 208</u>	<u>\$ 265</u>

b) Income Taxes and Interest Paid

(\$ millions)	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012

Income taxes paid	\$	12	\$	-	\$	56	\$	-
Interest paid	\$	43	\$	22	\$	63	\$	45

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

(\$ millions)	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2013	2012	2013	2012
Cash Flow From Operations Per Share, basic and diluted	\$ 0.71	\$ 0.51	\$ 1.28	\$ 1.44

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.

17) Prior Period Comparative Amounts

During the fourth quarter of 2012, the Corporation completed a review of the presentation of crude oil purchase and sale transactions and it was determined that certain transactions previously reported on a gross basis (sales are presented gross of crude oil purchases and transportation expense) are more appropriately reflected on a net basis (crude oil purchases and transportation expense are netted against sales). Prior period comparative amounts have been reclassified to conform to the current period presentation. The impact is as follows:

(\$ millions)	Three Months Ended	Six Months Ended
	June 30, 2012	June 30, 2012
Sales	\$ (57)	\$ (120)
Crude oil purchases and transportation expense	(57)	(120)
Net income	\$ -	\$ -

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