



Canadian Oil Sands

Q2

SECOND QUARTER REPORT

July 27, 2012
TSX: COS

Canadian Oil Sands announces second quarter 2012 financial results

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

Highlights for the three and six-month periods ended June 30, 2012:

- COS has declared a quarterly dividend of \$0.35 per Share. The dividend will be paid on August 31, 2012 to Shareholders of record on August 27, 2012.
- Cash flow from operations decreased 55 per cent to \$245 million (\$0.51 per Share) in the second quarter of 2012 from \$544 million (\$1.12 per Share) in the second quarter of 2011. The decrease was due mainly to lower sales volumes, a lower average realized selling price and higher operating expenses, partially offset by lower Crown royalties. Year-to-date cash flow from operations decreased 32 per cent to \$699 million (\$1.44 per Share) in 2012 from \$1,022 million (\$2.11 per Share) in the same 2011 period. The decline is due mainly to lower sales volumes and a lower average realized selling price, partially offset by lower Crown royalties.
- Net income decreased to \$101 million (\$0.21 per Share) in the second quarter of 2012 from \$346 million (\$0.71 per Share) in the second quarter of 2011. Year-to-date net income decreased to \$422 million (\$0.87 per Share) in 2012 from \$670 million (\$1.38 per Share) in 2011. In addition to the factors affecting cash flow from operations, 2012 net income was impacted by variances in deferred taxes and foreign exchange gains and losses.
- The second quarter 2012 realized selling price averaged \$90.45 per barrel compared with \$111.00 per barrel in the 2011 second quarter, reflecting a \$5.45 per barrel weighted-average Synthetic Crude Oil ("SCO") discount to WTI and a lower WTI crude oil price, partially offset by a weaker Canadian dollar in 2012. The realized selling price in the first six months of 2012 averaged \$94.06 per barrel compared with \$101.34 per barrel in the 2011 comparative period, reflecting a weighted-average SCO to WTI discount of \$5.70 per barrel and a lower WTI crude oil price, partially offset by a weaker Canadian dollar in 2012.
- Sales volumes averaged about 90,000 barrels per day in the second quarter of 2012 compared with 103,000 barrels per day in the 2011 second quarter, reflecting the planned Coker 8-3 and Vacuum Distillation Unit turnarounds in 2012. Year-to-date, sales volumes averaged about 99,000 barrels per day compared with 112,000 barrels per day in the 2011 period.
- Operating expenses in the second quarter of 2012 increased to \$50.66 per barrel from \$37.07 per barrel in the second quarter of 2011, primarily reflecting lower production volumes and higher turnaround expenses due to the planned major maintenance in 2012. Year-to-date, operating expenses in 2012 increased to \$40.83 per barrel from \$36.24 per barrel in the comparative 2011 period due to lower production volumes in 2012. Total operating expenses year-to-date in 2012 were unchanged from 2011.

"Our second quarter results are in-line with our expectations, and reflect the successful planned turnarounds of the Coker 8-3 complex and the Vacuum Distillation Unit. With these main upgrading units now back in operation and no major maintenance planned for the remainder of the year, we expect robust production over the balance of 2012," said Marcel Coutu, President and Chief Executive Officer. "We continue to be well positioned with a strong balance sheet to fund remaining expenditures for Syncrude's major capital projects, including the centrifuge project announced today."

Mr. Coutu added: "Our strategy has always been to manage a strong balance sheet to support our unhedged crude oil position and even more so during high capex periods such as now. As our current major capital projects approach completion in 2014, we expect our net debt position to return to a range of \$1 billion to \$2 billion while we deploy our outstanding cash balances of \$1.6 billion to help fund expenditures and dividends."

Highlights

(\$ millions, except per Share and volume amounts)	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	2012	2011
Cash flow from operations ¹	\$ 245	\$ 544	\$ 699	\$ 1,022
Per Share ¹	\$ 0.51	\$ 1.12	\$ 1.44	\$ 2.11
Net income	\$ 101	\$ 346	\$ 422	\$ 670
Per Share, Basic and Diluted	\$ 0.21	\$ 0.71	\$ 0.87	\$ 1.38
Sales volumes ²				
Total (mmbbls)	8.2	9.3	18.0	20.2
Daily average (bbls)	89,597	102,938	98,853	111,867
Realized SCO selling price (\$/bbl)	\$ 90.45	\$ 111.00	\$ 94.06	\$ 101.34
West Texas Intermediate (average \$US/bbl)	\$ 93.35	\$ 102.34	\$ 98.15	\$ 98.50
Operating expenses (\$/bbl)	\$ 50.66	\$ 37.07	\$ 40.83	\$ 36.24
Capital expenditures	\$ 292	\$ 140	\$ 433	\$ 249
Dividends	\$ 170	\$ 145	\$ 315	\$ 242
Per Share	\$ 0.35	\$ 0.30	\$ 0.65	\$ 0.50

¹ Cash flow from operations and cash flow from operations per Share are non-GAAP measures and are defined on page 5 within the Management's Discussion and Analysis ("MD&A") section of this report.

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

Syncrude produced an average 239,000 barrels per day (total 21.7 million barrels) during the second quarter of 2012 compared with 281,000 barrels per day (total 25.6 million barrels) during the same 2011 period. The decrease reflects the planned turnaround of Coker 8-3 and the Vacuum Distillation Unit compared with no major maintenance activity during the 2011 second quarter. Coker 8-3 and the Vacuum Distillation Unit returned to service in early July 2012.

Syncrude reached another important target in its efforts to increase capacity utilization rates by achieving a run length of 36 months for Coker 8-3. This is the second time in the past 12 months that Syncrude has achieved a coker run length of 36 months, with Coker 8-2 achieving this milestone in the fall of 2011. Coker run lengths of 36 months are a marked improvement over average coker run lengths at Syncrude of 28 months for the past five years, and are fundamental in increasing overall production rates.

Year-to-date, Syncrude produced an average 267,000 barrels per day (total 48.5 million barrels) in 2012 compared with 301,000 barrels per day (total 54.5 million barrels) in 2011. In addition to the factors affecting second quarter production, volumes for the first half of 2012 reflect maintenance on Coker 8-1 in the first quarter while production in the first half of 2011 had no interruptions for major maintenance.

Centrifuge Project Update

Syncrude is planning to construct a centrifuge plant as part of its multi-pronged approach to manage tailings and comply with government regulations, as specified in the Energy Resources and Conservation Board (ERCB) Directive 074. The plant is estimated to cost \$1.9 billion (\$0.7 billion net to COS), reflecting a fully-engineered cost estimate with an estimated accuracy range of plus or minus 15 per cent. Construction of the plant is expected to be completed in the first half of 2015.

Syncrude has piloted centrifuge technology, compared it to alternative methods for processing tailings and believes centrifuge technology is an effective solution for meeting the requirements of its plan submitted under Directive 074. Centrifuge technology produces a soft, clay-rich soil that can be used in Syncrude's reclamation efforts. Syncrude continues to work with other oil sands operators as part of the Canadian Oil Sands Innovation Alliance (COSIA) to research and develop tailings management technologies.

More information on Syncrude's tailings management plan, including videos on centrifuge technology, is available at: <http://www.cdnoilsands.com/sustainability/Environmental-Sustainability/Tailings-Management/default.aspx>

2012 Outlook

Canadian Oil Sands has revised its outlook for 2012, which includes the following estimates and assumptions:

- Annual Syncrude production of 110 million barrels (301,000 barrels per day) with a range of 106 to 112 million barrels. Net to Canadian Oil Sands, this is equivalent to 40.4 million barrels (110,000 barrels per day). The 110 million barrel estimate assumes robust production without major interruptions for the remainder of the year. No major maintenance is planned for the second half of 2012.
- We are estimating an \$84 per barrel plant-gate realized selling price, which assumes a U.S. \$90 per barrel WTI oil price, a SCO discount to Cdn dollar WTI of \$7 per barrel and a foreign exchange rate of \$0.99 U.S./Cdn.
- We estimate 2012 operating expenses of \$1,514 million, or \$37.46 per barrel, reflecting actual costs incurred to date and a reduced natural gas price assumption of \$2.50 per gigajoule.
- Our estimate for 2012 capital expenditures has decreased by \$95 million to \$1,124 million. The expected completion dates and estimated costs for the major projects are not affected.
- We expect current taxes of approximately \$40 million in 2012 and approximately \$350 million in 2013, based on the assumptions in our 2012 outlook and the estimated timing of tax deductions for capital expenditures.
- We are estimating 2012 cash flow from operations of \$1,461 million, or \$3.02 per Share. After deducting forecast 2012 capital expenditures, we estimate \$337 million in remaining cash flow from operations for the year, or \$0.69 per Share.
- We expect cash levels to decrease significantly from the current \$1.6 billion as we fund the major capital projects, repay the 2013 debt maturity and fund dividends. As a result, net debt levels should rise to a more normalized level of \$1 billion to \$2 billion by the end of 2014, coincident with the reduced capital risk from the completion of our major capital projects.

More information on the outlook is provided in the Management's Discussion and Analysis ("MD&A") section of this report and the July 27, 2012 guidance document, which is available on our web site at www.cdnoilsands.com under "Investor Information".

The 2012 Outlook contains forward-looking information and users are cautioned that the actual amounts may vary from the estimates disclosed. Please refer to the "Forward-Looking Information Advisory" in the MD&A section of this report for the risks and assumptions underlying this forward-looking information.

Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") was prepared as of July 27, 2012 and should be read in conjunction with the unaudited consolidated financial statements and notes thereto of Canadian Oil Sands Limited (the "Corporation") for the three and six months ended June 30, 2012 and June 30, 2011, the audited consolidated financial statements and MD&A of the Corporation for the year ended December 31, 2011 and the Corporation's Annual Information Form ("AIF") dated February 23, 2012. 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" 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 stated otherwise.

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 2012 annual Syncrude forecasted production range of 106 million barrels to 112 million barrels and the single-point Syncrude production estimate of 110 million barrels (40.4 million barrels net to the Corporation); 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 2012 and beyond; the expected sales, operating expenses, Crown royalties, capital expenditures and cash flow from operations for 2012; the anticipated amount of current taxes in 2012 and 2013; the expectation that proceeds from the March 2012 senior note offering will be used to repay U.S. \$300 million of senior notes which mature on August 15, 2013, to fund major capital projects over the next three years and for general corporate purposes; expectations regarding the Corporation's cash levels over the next several years; the expected price for crude oil and natural gas in 2012; the expected foreign exchange rates in 2012; the expected realized selling price, which includes the anticipated differential to West Texas Intermediate ("WTI") to be received in 2012 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 anticipated target in-service date for the Syncrude Emissions Reduction ("SER") project; the expectation that the Corporation will finance the major projects primarily with cash flow from operations and existing cash balances; the cost estimates for 2012 to 2015 major project spending; the expectation that the volatility in the SCO to WTI differential is likely to persist for several years until sufficient pipeline capacity is available to deliver crude oil from western Canada to Cushing, Oklahoma or the United States gulf coast; and the belief that centrifuge technology is an effective solution for meeting Syncrude's requirements of its plan submitted under Directive 074.

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 27, 2012 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; 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 products; 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 074; volatility of crude oil prices; volatility of the SCO to WTI price differential; unsuccessful or untimely implementation of capital or maintenance projects and such other risks and uncertainties described in the Corporation's AIF dated February 23, 2012 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 27, 2012, 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.

Non-GAAP Financial Measures

In this MD&A and the related press release, we refer to financial measures that do not have any standardized meaning as prescribed by Canadian GAAP. These non-GAAP financial measures include cash flow from operations, cash flow from operations on a per Share basis, net debt, total net capitalization, total capitalization, net debt to total net capitalization, and total debt to total capitalization. In addition, the Corporation refers to various per barrel figures, such as net realized selling prices, operating expenses and Crown royalties, which also are considered non-GAAP measures. We derive per barrel figures by dividing the relevant sales or cost figure by our sales volumes, which are net of purchased crude oil volumes in a period. Non-GAAP financial measures provide additional information that we believe is meaningful regarding the Corporation's operational performance, its liquidity and its capacity to fund dividends, capital expenditures and other investing activities. Users are cautioned that non-GAAP financial measures presented by the Corporation may not be comparable with measures provided by other entities.

Cash flow from operations is calculated as cash from operating activities, as reported on the Consolidated Statement of Cash Flows, 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, which is not impacted by fluctuations in non-cash working capital balances, is more indicative of operational performance. The majority of 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	
	2012	2011	2012	2011
Cash flow from operations	\$ 245	\$ 544	\$ 699	\$ 1,022
Change in non-cash working capital ¹	117	(17)	229	(36)
Cash from operating activities ¹	\$ 362	\$ 527	\$ 928	\$ 986

¹ As reported in the Consolidated Statements of Cash Flows.

Review of Syncrude Operations

Synthetic Crude Oil (“SCO”) production from the Syncrude Joint Venture (“Syncrude”) during the second quarter of 2012 totalled 21.7 million barrels, or 239,000 barrels per day, compared with 25.6 million barrels, or 281,000 barrels per day, in the comparative 2011 period. Production in the 2012 second quarter reflects the planned turnarounds of Coker 8-3 and the Vacuum Distillation Unit while there was no major maintenance activity during the 2011 second quarter. Both Coker 8-3 and the Vacuum Distillation Unit returned to service in early July 2012. Net to the Corporation, production totalled 8.0 million barrels in the second quarter of 2012 compared with 9.4 million barrels in the second quarter of 2011, based on Canadian Oil Sands’ 36.74 per cent working interest in Syncrude.

Year-to-date, Syncrude produced 48.5 million barrels in 2012, or 267,000 barrels per day, compared with 2011 when production totalled 54.5 million barrels, or 301,000 barrels per day. Production volumes for the first half of 2012 reflect maintenance on Coker 8-1 in the first quarter and the planned Coker 8-3 and Vacuum Distillation Unit turnarounds in the second quarter. Comparatively, production in the first half of 2011 was not affected by interruptions for major maintenance. Net to the Corporation, production totalled 17.8 million barrels in the first half of 2012 compared with 20.0 million barrels in the comparative 2011 period, based on Canadian Oil Sands’ 36.74 per cent working interest in Syncrude.

Canadian Oil Sands’ operating expenses in the second quarter of 2012 increased \$13.59 per barrel to \$50.66 per barrel from \$37.07 per barrel in the second quarter of 2011. The increase reflects lower production volumes and higher turnaround expenses due to the planned major maintenance, increased expense for Syncrude’s long-term incentive plans, and more routine maintenance activity, partially offset by decreased purchased energy costs in 2012. Year-to-date, operating expenses in 2012 increased \$4.59 per barrel to \$40.83 per barrel from \$36.24 per barrel in the comparative 2011 period, reflecting lower production volumes in 2012; while turnaround expenses were higher in the 2012 period than in 2011, these expenses were offset by decreased purchased energy costs. Additional information is provided in the “Operating Expenses” section of this MD&A.

Canadian Oil Sands’ 2012 capital expenditures were \$292 million in the second quarter and \$433 million on a year-to-date basis, up from \$140 million and \$249 million in the comparative 2011 periods, as spending increased on multi-year capital projects to replace or relocate Syncrude mining trains and to support tailings management plans. Additional information is provided in the “Capital Expenditures” section of this MD&A.

Review of Financial Results

Highlights

(\$ millions, except per Share and volume amounts)	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	2012	2011
Cash flow from operations ¹	\$ 245	\$ 544	\$ 699	\$ 1,022
Per Share ¹	\$ 0.51	\$ 1.12	\$ 1.44	\$ 2.11
Net income	\$ 101	\$ 346	\$ 422	\$ 670
Per Share, Basic and Diluted	\$ 0.21	\$ 0.71	\$ 0.87	\$ 1.38
Sales volumes ²				
Total (mmbbls)	8.2	9.3	18.0	20.2
Daily average (bbls)	89,597	102,938	98,853	111,867
Realized SCO selling price (\$/bbl)	\$ 90.45	\$ 111.00	\$ 94.06	\$ 101.34
West Texas Intermediate (average \$US/bbl)	\$ 93.35	\$ 102.34	\$ 98.15	\$ 98.50
Operating expenses (\$/bbl)	\$ 50.66	\$ 37.07	\$ 40.83	\$ 36.24
Capital expenditures	\$ 292	\$ 140	\$ 433	\$ 249
Dividends	\$ 170	\$ 145	\$ 315	\$ 242
Per Share	\$ 0.35	\$ 0.30	\$ 0.65	\$ 0.50

¹ Cash flow from operations and cash flow from operations per Share are non-GAAP measures and are defined on page 5 of this report.

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.

Net Income per Barrel

(\$ per barrel) ¹	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	2012	2011
Sales after crude oil purchases and transportation expense	\$ 90.73	\$ 111.61	\$ 94.31	\$ 101.80
Operating expenses	(50.66)	(37.07)	(40.83)	(36.24)
Crown royalties	(2.05)	(10.48)	(6.24)	(8.33)
	\$ 38.02	\$ 64.06	\$ 47.24	\$ 57.23
Non-production expenses	(3.10)	(2.67)	(2.79)	(2.85)
Administration and insurance	(1.14)	(0.58)	(0.97)	(0.83)
Depreciation and depletion	(11.34)	(10.39)	(10.42)	(9.52)
Net finance expense	(2.05)	(1.70)	(1.30)	(1.47)
Foreign exchange (loss) gain	(3.22)	0.89	(0.55)	1.49
Tax expense	(4.68)	(12.77)	(7.72)	(10.97)
	(25.53)	(27.22)	(23.75)	(24.15)
Net income per barrel	\$ 12.49	\$ 36.84	\$ 23.49	\$ 33.08
Sales volumes (mmbbls) ²	8.2	9.3	18.0	20.2

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 Sales volumes, net of purchased crude oil volumes.

Cash flow from operations decreased 55 per cent to \$245 million, or \$0.51 per Share, in the second quarter of 2012 from \$544 million, or \$1.12 per Share, in the second quarter of 2011. The decrease was due mainly to lower sales (net of crude oil purchases and transportation expense) and higher operating expenses, partially offset by lower Crown royalties. Year-to-

date cash flow from operations decreased 32 per cent to \$699 million, or \$1.44 per Share, in 2012 from \$1,022 million, or \$2.11 per Share, in 2011 due mainly to lower net sales partially offset by lower Crown royalties.

Sales net of crude oil purchases and transportation expense decreased \$305 million to \$740 million in the second quarter of 2012 from \$1,045 million in the comparative 2011 quarter, and year-to-date net sales decreased \$365 million to \$1,696 million in 2012 from \$2,061 million in 2011, reflecting both lower sales volumes and a lower average realized selling price in 2012. Additional information is provided in the "Sales Net of Crude Oil Purchases and Transportation Expense" section of this MD&A.

Crown royalties decreased \$82 million to \$16 million, or \$2.05 per barrel, in the second quarter of 2012 from \$98 million, or \$10.48 per barrel, in the 2011 second quarter due to lower deemed bitumen prices and volumes combined with higher bitumen-related capital costs in 2012. On a year-to-date basis, Crown royalties decreased \$57 million to \$112 million, or \$6.24 per barrel, in 2012 from \$169 million, or \$8.33 per barrel, in 2011 due primarily to lower bitumen volumes and higher bitumen-related capital costs in 2012. Additional information is provided in the "Crown Royalties" section of this MD&A.

Operating expenses in the second quarter of 2012 increased \$13.59 per barrel to \$50.66 per barrel from \$37.07 per barrel in the second quarter of 2011. The increase reflects lower production volumes and higher turnaround expenses due to the planned major maintenance, increased expense for Syncrude's long-term incentive plans, and more routine maintenance activity, partially offset by decreased purchased energy costs in 2012. Year-to-date, operating expenses in 2012 increased \$4.59 per barrel to \$40.83 per barrel from \$36.24 per barrel in the comparative 2011 period, reflecting lower production volumes in 2012; while turnaround expenses were higher in the 2012 period than in 2011, these expenses were offset by decreased purchased energy costs. Additional information is provided in the "Operating Expenses" section of this MD&A.

Net income decreased to \$101 million, or \$0.21 per Share, in the second quarter of 2012 from \$346 million, or \$0.71 per Share, in the second quarter of 2011. Year-to-date net income decreased to \$422 million, or \$0.87 per Share, in 2012 from \$670 million, or \$1.38 per Share, in 2011. In addition to the variances in net sales, Crown royalties, and operating expenses described earlier, net income was impacted by variances in deferred taxes and foreign exchange gains and losses.

The Corporation recorded deferred tax expense of \$19 million and \$119 million in the second quarter and first half of 2012, respectively, down from \$119 million and \$222 million in the comparative 2011 periods. The decrease in quarter-over-quarter and year-over-year tax expense was primarily due to lower before-tax earnings in 2012.

The Corporation recognizes foreign exchange gains and losses primarily as a result of revaluations of its U.S. dollar denominated long-term debt caused by fluctuations in U.S. / Cdn dollar exchange rates. The Corporation recorded foreign exchange losses of \$26 million and \$10 million for the second quarter and first half of 2012, respectively, reflecting a weakening Canadian dollar during the period and higher U.S. dollar-denominated long-term debt levels as a result of the U.S. \$700 million Senior Notes issued in March. Foreign exchange gains of \$8 million and \$30 million were recorded in the second quarter and first half of 2011, respectively, reflecting a strengthening in the value of the Canadian dollar relative to the U.S. dollar.

Capital expenditures in 2012 were \$292 million in the second quarter and \$433 million on a year-to-date basis, up from \$140 million and \$249 million in the comparative 2011 periods, as spending increased on multi-year capital projects to replace or relocate Syncrude mining trains and to support tailings management plans. Additional information is provided in the "Capital Expenditures" section of this MD&A.

Net debt, comprised of long-term debt less cash and cash equivalents, decreased to \$0.2 billion at June 30, 2012 from \$0.4 billion at December 31, 2011. While \$699 million of cash flow from operations in the first half of 2012 fell short of capital expenditures and dividend payments of \$433 million and \$315 million, respectively, a reduction in non-cash working capital balances increased cash and cash equivalents by \$265 million.

Sales Net of Crude Oil Purchases and Transportation Expense

(\$ millions, except where otherwise noted)	Three Months Ended			Six Months Ended		
	2012	2011	\$ Change	2012	2011	\$ Change
Sales ¹	\$ 882	\$ 1,092	\$ (210)	\$ 2,019	\$ 2,175	\$ (156)
Crude oil purchases	(134)	(41)	(93)	(306)	(100)	(206)
Transportation expense	(8)	(6)	(2)	(17)	(14)	(3)
	\$ 740	\$ 1,045	\$ (305)	\$ 1,696	\$ 2,061	\$ (365)
Sales volumes (mmbbls) ²	8.2	9.3	(1.1)	18.0	20.2	(2.2)
Realized SCO selling price ³ (average \$Cdn/bbl)	\$ 90.45	\$ 111.00	\$ (20.55)	\$ 94.06	\$ 101.34	\$ (7.28)
West Texas Intermediate ("WTI") (average \$US/bbl)	93.35	102.34	(8.99)	98.15	98.50	(0.35)
SCO premium (discount) to WTI (weighted average \$Cdn/bbl)	(5.45)	11.72	(17.17)	(5.70)	5.61	(11.31)
Average foreign exchange rate (\$US/\$Cdn)	0.99	1.03	(0.04)	0.99	1.02	(0.03)

¹ Sales include sales of purchased crude oil and sulphur.

² Sales volumes, net of purchased crude oil volumes.

³ SCO sales net of crude oil purchases and transportation expense divided by sales volumes, net of purchased crude oil volumes.

The \$305 million, or 29 per cent, decrease in sales net of crude oil purchases and transportation expense in the second quarter of 2012 relative to the 2011 second quarter reflects lower sales volumes and a lower average realized SCO selling price in 2012.

Sales volumes averaged about 90,000 barrels per day in the second quarter of 2012 compared with 103,000 barrels per day in the 2011 second quarter, reflecting the planned Coker 8-3 and Vacuum Distillation Unit turnarounds in 2012.

The second quarter 2012 realized selling price averaged \$90.45 per barrel, a \$20.55 per barrel decrease from \$111.00 per barrel in the 2011 second quarter, reflecting a SCO discount relative to WTI and a lower WTI crude oil price, partially offset by a weaker Canadian dollar in 2012. The Corporation realized a \$5.45 per barrel weighted-average SCO discount to WTI in the second quarter of 2012 versus an \$11.72 per barrel premium in the second quarter of 2011. WTI averaged U.S. \$93 per barrel compared with U.S. \$102 per barrel in the comparative 2011 period and the Canadian dollar averaged \$0.99 U.S./Cdn, down from \$1.03 U.S./Cdn in 2011.

On a year-to-date basis, the \$365 million, or 18 per cent, decrease in sales net of crude oil purchases and transportation expense in 2012 reflects lower sales volumes and a lower average realized SCO selling price.

Sales volumes averaged about 99,000 barrels per day in the first six months of 2012 compared with 112,000 barrels per day in the comparative 2011 period, reflecting maintenance on Coker 8-1 and the planned Coker 8-3 and Vacuum Distillation Unit turnarounds in 2012.

The realized selling price in the first six months of 2012 averaged \$94.06 per barrel compared with \$101.34 per barrel in the 2011 comparative period, reflecting a SCO discount relative to WTI, a lower WTI benchmark oil price and a weaker Canadian dollar. The Corporation realized a weighted-average SCO to WTI discount of \$5.70 per barrel in the first half of 2012, an \$11.31 per barrel decrease from the \$5.61 per barrel premium in the comparative 2011 period. WTI averaged U.S. \$98 per barrel compared with U.S. \$99 per barrel in the comparative 2011 period and the Canadian dollar averaged \$0.99 U.S./Cdn compared with \$1.02 U.S./Cdn in 2011.

The SCO discount to WTI reflects recent supply/demand fundamentals for light crude oil. Increasing North American production of both SCO and light crude oil from tight oil formations and refinery modifications enabling processing of heavier crude oils have resulted in sales to more distant refineries, thereby decreasing the net realized price by higher transportation costs. More recently, this situation has been exacerbated by pipeline apportionment, which has restricted the ability of SCO

and other crude oils to reach their preferred markets, reducing the price received. Additional information on the SCO to WTI differential is provided in the "Outlook" section of this MD&A.

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 and tankage arrangements and operations. 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 three and six months ended June 30, 2012 relative to the comparative 2011 periods, reflecting additional purchased volumes in 2012 to support transportation and storage arrangements and unanticipated production shortfalls, partially offset by lower crude oil prices.

Crown Royalties

Crown royalties decreased \$82 million to \$16 million, or \$2.05 per barrel, in the second quarter of 2012 from \$98 million, or \$10.48 per barrel, in the 2011 second quarter due to lower deemed bitumen prices and volumes combined with higher bitumen-related capital costs in 2012. On a year-to-date basis, Crown royalties decreased \$57 million to \$112 million, or \$6.24 per barrel, in 2012 from \$169 million, or \$8.33 per barrel, in 2011 due primarily to lower bitumen volumes and higher bitumen-related capital costs in 2012.

The Syncrude Royalty Amending Agreement requires that bitumen be valued by a formula that references the value of bitumen based on North American heavy oil reference prices adjusted for reasonable quality, transportation and handling deductions (including diluent costs) to reflect the quality and location differences between Syncrude's bitumen and the reference price of bitumen. Canadian Oil Sands' share of the royalties recognized for the period from January 1, 2009 to June 30, 2012 are estimated to be approximately \$45 million lower than the amount calculated using the Alberta-government-provided bitumen value for Syncrude. The Syncrude owners and the Alberta government continue to discuss the basis for reasonable quality, transportation, and other adjustments 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, will be recognized immediately and will impact both net income and cash flow from operations accordingly.

Operating Expenses

The following table breaks down operating expenses into their major components and 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			
	2012		2011 ⁴		2012		2011 ⁴	
(\$ per barrel)	Bitumen	SCO	Bitumen	SCO	Bitumen	SCO	Bitumen	SCO
Bitumen production	\$ 38.48	\$ 42.37	\$ 23.31	\$ 29.12	\$ 29.87	\$ 34.71	\$ 24.03	\$ 28.61
Internal fuel allocation ²	2.32	2.56	2.70	3.38	2.25	2.62	2.64	3.14
Total produced bitumen costs	40.80	44.93	26.01	32.50	32.12	37.33	26.67	31.75
Upgrading costs ¹		15.85		9.46		12.11		9.73
Less: internal fuel allocation to bitumen ²		(2.56)		(3.38)		(2.62)		(3.14)
Total Syncrude operating expenses		58.22		38.58		46.82		38.34
Canadian Oil Sands adjustments ³		(7.56)		(1.51)		(5.99)		(2.10)
Total operating expenses		50.66		37.07		40.83		36.24
<i>(thousands of barrels per day)</i>								
Syncrude production volumes	263	239	352	281	310	267	359	301

¹ Upgrading costs include the production and ongoing maintenance costs associated with processing and upgrading of bitumen to SCO.

² 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 \$1.79 per GJ and \$2.04 per GJ in the three and six months ended June 30, 2012, respectively, and \$3.62 per GJ and \$3.60 per GJ in the three and six months ended June 30, 2011, respectively. Diesel prices averaged \$0.83 per litre and \$0.89 per litre in the three and six months ended June 30, 2012, respectively, and \$0.92 per litre and \$0.90 per litre in the three and six months ended June 30, 2011, respectively.

³ Canadian Oil Sands' adjustments mainly pertain to actual reclamation costs and major turnaround costs, which Syncrude includes in operating expenses. Canadian Oil Sands capitalizes major turnaround costs and recognizes actual reclamation costs through its asset retirement obligation. Major turnaround costs are expensed through depreciation and reclamation costs are expensed through both depletion and accretion (within net finance expense). Costs of non-major turnarounds are expensed through operating expenses.

⁴ Certain comparative period amounts have been restated to conform to the current period presentation.

	Three Months Ended June 30			Six Months Ended June 30		
	2012	2011	\$ Change	2012	2011	\$ Change
(\$ per barrel of SCO)						
Production costs	\$ 47.59	\$ 31.69	\$ 15.90	\$ 37.42	\$ 31.09	\$ 6.33
Purchased energy	3.07	5.38	(2.31)	3.41	5.15	(1.74)
Total operating expenses	\$ 50.66	\$ 37.07	\$ (13.59)	\$ 40.83	\$ 36.24	\$ 4.59
<i>(GJs per barrel of SCO)</i>						
Purchased energy consumption	1.72	1.49	0.23	1.67	1.43	0.24

Operating expenses in the second quarter of 2012 increased \$13.59 per barrel to \$50.66 per barrel from \$37.07 per barrel in the second quarter of 2011 primarily due to:

- lower production volumes and higher turnaround expenses due to the planned major maintenance activity in 2012;
- an increase in the value of Syncrude's long-term incentive plans in the 2012 second quarter as opposed to a decrease in the comparative 2011 quarter. A portion of Syncrude's long-term incentive plans is based on the market return performance of several Syncrude owners' shares, including those of the Corporation, which was stronger in 2012 than in 2011; and
- more routine maintenance activity;

The increase in operating expenses was partially offset by:

- decreased purchased energy costs due to lower natural gas prices and diesel volumes in the 2012 second quarter.

Year-to-date, operating expenses in 2012 increased \$4.59 per barrel to \$40.83 per barrel from \$36.24 per barrel in the comparative 2011 period, reflecting lower production volumes; while turnaround expenses were higher in the 2012 period than in 2011, these expenses were offset by decreased purchased energy costs.

On a total dollar basis, operating expenses increased about 19 per cent quarter-over-quarter from \$347 million in 2011 to \$413 million in 2012, and year-to-date, were unchanged from 2011 to 2012.

Purchased energy consumption rates were higher in 2012, primarily because downtime of Cokers 8-1 and 8-3 resulted in less fuel being generated, which required higher natural gas purchases in 2012 to meet energy needs than in the comparative 2011 periods.

Non-Production Expenses

Non-production expenses totalled \$26 million and \$50 million in the second quarter and first half of 2012, respectively, compared with \$25 million and \$58 million in the comparative 2011 periods. Non-production expenses consist primarily of development expenditures relating to capital programs, which are expensed, such as pre-feasibility engineering, technical and support services, research and development, evaluation drilling and regulatory and stakeholder consultation expenditures. Non-production expenses can vary from period to period depending on the number of projects underway and the development stage of the projects.

Net Finance Expense

(\$ millions)	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	2012	2011
Interest costs	\$ 30	\$ 24	\$ 51	\$ 45
Less capitalized interest	(21)	(13)	(41)	(24)
Interest expense	9	11	10	21
Accretion of asset retirement obligation	7	4	13	8
Net finance expense	\$ 16	\$ 15	\$ 23	\$ 29

Interest costs in 2012 were higher than the comparative 2011 periods as a result of the U.S. \$700 million debt issued on March 29, 2012; however, interest expense in 2012 was lower than the comparative 2011 periods because a higher portion of interest costs were capitalized in 2012, as cumulative capital expenditures on qualifying assets rose. The period-over-period increases in accretion of the asset retirement obligation from 2011 to 2012 reflect the increase in the estimated asset retirement obligation recognized in the fourth quarter of 2011.

Depreciation and Depletion Expense

Depreciation and depletion expense totalled \$93 million and \$188 million in the three and six months ended June 30, 2012 and \$97 million and \$192 million in the three and six months ended June 30, 2011, as Canadian Oil Sands' depreciable property, plant and equipment, and the estimated useful lives over which most of these assets are depreciated, were similar in both periods.

Foreign Exchange (Gain) Loss

(\$ millions)	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	2012	2011
Foreign exchange (gain) loss – long-term debt	\$ 36	\$ (9)	\$ 16	\$ (34)
Foreign exchange (gain) loss – other	(10)	1	(6)	4
Total foreign exchange (gain) loss	\$ 26	\$ (8)	\$ 10	\$ (30)

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 for the second quarter of 2012 were the result of a weakening in the value of the Canadian dollar relative to the U.S. dollar to \$0.98 U.S./Cdn at June 30, 2012 from \$1.00 U.S./Cdn at March 31, 2012. The 2012 year-to-date foreign exchange loss is mainly the result of a weakening in the value of the Canadian dollar from March 29, 2012, when the \$U.S. 700 million of Senior Notes were issued, to June 30, 2012. The foreign exchange gains in the comparative 2011 periods were the result of a strengthening in the value of the Canadian dollar relative to the U.S. dollar to \$1.04 U.S./Cdn at June 30, 2011 from \$1.03 U.S./Cdn at March 31, 2011 and \$1.01 U.S./Cdn at December 31, 2010.

Tax Expense

(\$ millions)	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	2012	2011
Current tax expense	\$ 20	\$ -	\$ 20	\$ -
Deferred tax expense	19	119	119	222
Total tax expense	\$ 39	\$ 119	\$ 139	\$ 222

The decrease in total tax expense from 2011 to 2012 reflects lower before-tax earnings in 2012.

Asset Retirement Obligation

Canadian Oil Sands increased its estimated asset retirement obligation from \$1,037 million at December 31, 2011 to \$1,077 million at June 30, 2012. The increase reflects a decrease in the interest rate used to discount future reclamation payments, partially offset by \$42 million of reclamation spending during the first half of 2012. The \$29 million current portion of the asset retirement obligation is included in accounts payable and accrued liabilities, while the \$1,048 million non-current portion is presented separately as an asset retirement obligation on the June 30, 2012 Consolidated Balance Sheet.

Pension and Other Post-Employment Benefit Plans

The Corporation's share of the estimated unfunded portion of Syncrude Canada's pension and other post-employment benefit plans increased to \$476 million at June 30, 2012 from \$465 million at December 31, 2011, reflecting a lower discount rate partially offset by contributions. For the six months ended June 30, 2012, a \$30 million actuarial loss, net of \$10 million in deferred taxes, has been recognized in other comprehensive income to reflect the change in the discount rate.

Summary of Quarterly Results

	2012		2011				2010	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Sales ¹ (\$ millions)	\$ 740	\$ 956	\$ 884	\$ 989	\$ 1,045	\$ 1,016	\$ 912	\$ 692
Net income (\$ millions)	\$ 101	\$ 321	\$ 232	\$ 242	\$ 346	\$ 324	\$ 575	\$ 193
Per Share, Basic & Diluted	\$ 0.21	\$ 0.66	\$ 0.48	\$ 0.50	\$ 0.71	\$ 0.67	\$ 1.19	\$ 0.40
Cash flow from operations ² (\$ millions)	\$ 245	\$ 454	\$ 363	\$ 512	\$ 544	\$ 478	\$ 398	\$ 230
Per Share ²	\$ 0.51	\$ 0.94	\$ 0.75	\$ 1.06	\$ 1.12	\$ 0.99	\$ 0.82	\$ 0.48
Dividends (\$ millions)	\$ 170	\$ 145	\$ 146	\$ 145	\$ 145	\$ 97	\$ 242	\$ 242
Per Share	\$ 0.35	\$ 0.30	\$ 0.30	\$ 0.30	\$ 0.30	\$ 0.20	\$ 0.50	\$ 0.50
Daily average sales volumes ³ (bbls)	89,597	108,108	91,259	109,260	102,938	120,894	114,739	96,477
Realized SCO selling price (\$/bbl)	\$ 90.45	\$ 97.07	\$ 104.78	\$ 97.89	\$ 111.00	\$ 93.04	\$ 83.97	\$ 77.94
Operating expenses ⁴ (\$/bbl)	\$ 50.66	\$ 32.68	\$ 46.88	\$ 37.19	\$ 37.07	\$ 35.53	\$ 35.81	\$ 37.97
Purchased natural gas price (\$/GJ)	\$ 1.79	\$ 2.23	\$ 3.19	\$ 3.51	\$ 3.62	\$ 3.59	\$ 3.45	\$ 3.44
WTI ⁵ (average \$US/bbl)	\$ 93.35	\$ 103.03	\$ 94.06	\$ 89.54	\$ 102.34	\$ 94.60	\$ 85.24	\$ 76.21
Foreign exchange rates (\$US/\$Cdn)								
Average	\$ 0.99	\$ 1.00	\$ 0.98	\$ 1.02	\$ 1.03	\$ 1.02	\$ 0.99	\$ 0.96
Quarter-end	\$ 0.98	\$ 1.00	\$ 0.98	\$ 0.96	\$ 1.04	\$ 1.03	\$ 1.01	\$ 0.97

¹ Sales after crude oil purchases and transportation expense.

² Cash flow from operations and cash flow from operations per Share are non-GAAP measures and are defined on page 5 of this report.

³ Daily average sales volumes net of crude oil purchases.

⁴ Derived from operating expenses, as reported on the Consolidated Statements of Income and Comprehensive Income, divided by sales volumes during the period.

⁵ Pricing obtained from Bloomberg.

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

- fluctuations in oil prices have affected the Corporation's sales, Crown royalties, net income and cash flow from operations. WTI oil prices have ranged from U.S. \$72 per barrel to U.S. \$114 per barrel over the past two years;
- fluctuations in the monthly average differential between SCO and Canadian dollar WTI oil prices, which has ranged from a \$15 per barrel premium to a \$15 per barrel discount over the past two years, have affected the Corporation's sales, net income and cash flow from operations;
- 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 commodity pricing;
- planned and unplanned maintenance activities have negatively impacted quarterly production volumes, revenues and operating expenses; and,
- beginning in the first quarter of 2011, net income reflects an increase in taxes following the December 31, 2010 conversion from an income trust to a corporation. Net income was higher in the fourth quarter of 2010 due to a \$269 million deferred tax recovery resulting from re-measuring the deferred tax liability at a lower tax rate upon corporate conversion.

Quarterly variances in net income and cash flow from operations are caused mainly by fluctuations in crude oil prices, production and sales volumes, operating expenses and natural gas prices. Net income is also impacted by unrealized foreign exchange gains and losses, depreciation and depletion, and deferred tax amounts. The dividends paid to

Shareholders are likewise 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. Recent technological developments in North American natural gas production have significantly increased production levels and reduced 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

	Estimated % Complete ¹	Three Months Ended June 30		Six Months Ended June 30	
		2012	2011	2012	2011
<i>(\$ millions, except % amounts)</i>					
Major Projects					
Mildred Lake Mine Train Replacement	25	\$ 88	\$ 20	\$ 131	\$ 38
Reconstruct crushers, surge facilities, and slurry prep facilities to support tailings storage requirements					
Aurora North Mine Train Relocation	35	23	4	31	8
Relocate crushers, surge facilities, and slurry prep facilities to support tailings storage requirements					
Aurora North Tailings Management	35	20	6	39	13
Construct a composite tails (CT) plant at the Aurora North mine to process tailings					
Centrifuge Tailings Management	5	12	-	19	-
Construct a centrifuge plant at the Mildred Lake mine to process tailings					
Syncrude Emissions Reduction (SER)	99 ²	4	36	11	66
Retrofit technology into Syncrude's original two cokers to reduce total sulphur dioxide and other emissions					
Capital expenditures on major projects		147	66	231	125
Regular maintenance					
Capitalized turnaround costs		61	6	67	6
Other capital ³		63	55	94	94
Capital expenditures on regular maintenance		124	61	161	100
Capitalized interest		21	13	41	24
Total capital expenditures		\$ 292	\$ 140	\$ 433	\$ 249

¹ The estimated % complete is based on hours spent as a % of total forecasted hours to project completion.

² Construction of the SER project is essentially complete and is expected to be in-service in the second half of 2012.

³ Other regular maintenance capital includes expenditures on relocation of tailings facilities and other infrastructure projects.

Year-to-date capital expenditures increased to \$433 million in 2012 from \$249 million in 2011, and to \$292 million in the second quarter of 2012 from \$140 million in the second quarter of 2011. The increase reflects spending on the major capital projects at Syncrude. More information on the major projects is provided in the “Outlook” section of this MD&A.

The increase in capitalized turnaround costs from 2011 to 2012 reflects the planned turnarounds of Coker 8-3 and the Vacuum Distillation Unit during the second quarter of 2012. The increase in capitalized interest costs from 2011 to 2012 reflects higher cumulative capital expenditures on qualifying assets in 2012.

Contractual Obligations and Commitments

During the first six months of 2012, Canadian Oil Sands entered into new contractual obligations totalling approximately \$1.2 billion for the transportation and storage of crude oil in support of the Corporation’s strategy to secure access to preferred markets and enhance marketing flexibility. The Corporation also assumed \$130 million in new funding commitments primarily related to the major capital projects discussed in the Outlook section of this MD&A, increased its funding commitment by \$120 million in respect of Syncrude Canada’s registered pension plan, and assumed \$84 million in new commitments related to Syncrude Canada’s employee retention program.

Dividends

On July 27, 2012, 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 31, 2012 to Shareholders of record on August 27, 2012.

Dividend payments continue to be 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

<i>(\$ millions, except % amounts)</i>	June 30 2012	December 31 2011
Long-term debt	\$ 1,837	\$ 1,132
Cash and cash equivalents	(1,618)	(718)
Net debt ^{1,2}	\$ 219	\$ 414
Shareholders’ equity	\$ 4,286	\$ 4,210
Total net capitalization ^{1,3}	\$ 4,505	\$ 4,624
Total capitalization ^{1,4}	\$ 6,123	\$ 5,342
Net debt to total net capitalization ^{1,5} (%)	5	9
Total debt to total capitalization ^{1,6} (%)	30	21

¹ Net debt, total net capitalization, total capitalization, net debt to total net capitalization, and total debt to total capitalization are non-GAAP measures.

² Long-term debt less cash and cash equivalents.

³ Net debt plus Shareholders’ equity.

⁴ Long-term debt plus Shareholders’ equity.

⁵ Net debt divided by total net capitalization.

⁶ Long-term debt divided by total capitalization.

Net debt, comprised of long-term debt less cash and cash equivalents, decreased to \$0.2 billion at June 30, 2012 from \$0.4 billion at December 31, 2011. While cash flow from operations of \$699 million in the first half of 2012 fell short of capital

expenditures and dividend payments of \$433 million and \$315 million, respectively, a reduction in non-cash working capital balances increased cash and cash equivalents by \$265 million. Shareholders' equity increased to \$4.3 billion at June 30, 2012 from \$4.2 billion at December 31, 2011, as net income exceeded dividends in the first half of 2012.

During the second quarter of 2012, the Corporation extended the terms of its credit facilities by one year. The term of the \$1,500 million operating credit facility was extended to June 1, 2016 and the \$40 million extendible revolving term credit facility to June 30, 2014. No amounts were drawn against these facilities at June 30, 2012.

In March 2012, Canadian Oil Sands issued U.S. \$400 million of 4.5% senior unsecured notes due April 1, 2022 and U.S. \$300 million of 6.0% senior unsecured notes due April 1, 2042 (collectively, the "Notes"). Interest on the Notes is payable semi-annually on April 1 and October 1. Proceeds from the issues will be used to repay U.S. \$300 million of senior notes, which mature on August 15, 2013, to fund major capital projects over the next three years and for general corporate purposes.

COS' 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 total debt to total capitalization to 55 per cent. Canadian Oil Sands was in compliance with its debt covenants through the first half of 2012 and a significant increase in debt or decrease in Shareholders' equity would be required before the covenants restrict the Corporation's financial flexibility.

The Corporation's liquidity position has improved in the first six months of 2012 as a result of our growing cash position and the issuance of the Notes. We expect cash levels to decrease significantly over the next several years as we fund the major capital projects and repay the 2013 debt maturity. As a result, net debt levels should rise to a more normalized level of \$1 billion to \$2 billion by the end of 2014, coincident with reduced capital risk from the 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. The Corporation had a market capitalization of approximately \$9.6 billion with 484.5 million shares outstanding and a closing price of \$19.72 per Share on June 30, 2012. The following table summarizes the trading activity for the second quarter of 2012.

Canadian Oil Sands Limited – Trading Activity

	Second Quarter 2012	April 2012	May 2012	June 2012
Share price				
High	\$ 23.32	\$ 21.86	\$ 23.32	\$ 20.05
Low	\$ 18.21	\$ 19.88	\$ 20.01	\$ 18.21
Close	\$ 19.72	\$ 21.83	\$ 20.09	\$ 19.72
Volume of Shares traded (millions)	100.6	24.1	33.4	43.1
Weighted average Shares outstanding (millions)	484.5	484.5	484.5	484.5

Financial Instruments and Financial Risks

The Corporation's financial instruments include cash and cash equivalents, accounts receivable, reclamation trust investments, accounts payable, accrued liabilities and long-term debt. The nature, the Corporation's use of, and the risks associated with these instruments are unchanged from December 31, 2011. The Corporation did not have any financial derivatives outstanding in 2012.

Changes in Accounting Policies

There were no new accounting policies adopted, nor any changes to accounting policies, in the second quarter or first half of 2012.

2012 Outlook

<i>(millions of Canadian dollars, except volume and per barrel amounts)</i>	As of July 27 2012	As of April 30 2012
Operating assumptions		
Syncrude production (mmbbls)	110	110
Canadian Oil Sands sales (mmbbls)	40.4	40.4
Sales, net of crude oil purchases and transportation	\$ 3,393	\$ 3,637
Operating expenses	\$ 1,514	\$ 1,529
Operating expenses per barrel	\$ 37.46	\$ 37.83
Crown royalties	\$ 139	\$ 239
Cash flow from operations	\$ 1,461	\$ 1,641
Capital expenditure assumptions		
Major projects	\$ 714	\$ 780
Regular maintenance	\$ 335	\$ 364
Capitalized interest	\$ 75	\$ 75
Total capital expenditures	\$ 1,124	\$ 1,219
Business environment assumptions		
West Texas Intermediate (U.S.\$/bbl)	\$ 90.00	\$ 100.00
Premium (Discount) to average Cdn\$ WTI prices (Cdn\$/bbl)	\$ (7.00)	\$ (10.00)
Foreign exchange rate (U.S.\$/Cdn\$)	\$ 0.99	\$ 1.00
AECO natural gas (Cdn\$/GJ)	\$ 2.50	\$ 3.00

In our July 27, 2012 outlook, Canadian Oil Sands continues to estimate 2012 annual Syncrude production of 110 million barrels (301,000 barrels per day) with a range of 106 to 112 million barrels. Net to Canadian Oil Sands, this is equivalent to 40.4 million barrels (110,000 barrels per day). The 110 million barrel outlook assumes robust production with no major interruptions for the remainder of the year. There is no major maintenance planned for the second half of 2012.

Sales, net of crude oil purchases and transportation expense, are now estimated to be approximately \$3.4 billion, reflecting our 40.4 million barrel production estimate and an \$84 per barrel plant-gate realized selling price. The selling price assumes a U.S. \$90 per barrel WTI oil price, a SCO discount to Cdn dollar WTI of \$7 per barrel and a foreign exchange rate of \$0.99 U.S./Cdn.

The forecast SCO discount to WTI reflects actual year-to-date results and recent supply/demand fundamentals for inland North American light crude oil. Increasing North American production of both SCO and light crude oil from tight oil formations, and refinery modifications enabling processing of heavier crude oils, have pushed light crude sales to more distant refineries, thereby increasing transportation costs included in the net realized price. Recently, this situation has been exacerbated by pipeline apportionment which has restricted the ability of SCO and other crude oils to reach their preferred markets, reducing the price received. These supply and demand dynamics lead to price volatility which is likely to persist for several years until sufficient pipeline capacity is available to deliver crude oil from western Canada to Cushing, Oklahoma or the United States gulf coast.

We estimate 2012 operating expenses of \$1,514 million, or \$37.46 per barrel, reflecting actual costs incurred to date and a reduced natural gas price assumption of \$2.50 per gigajoule.

The estimate for 2012 capital expenditures has decreased by \$95 million to \$1,124 million due to adjustments to the expected timing of major project spending. The expected completion dates and estimated costs for the major projects are not affected.

Current taxes of approximately \$40 million in 2012 and approximately \$350 million in 2013 are based on the assumptions in our 2012 outlook and the estimated timing of tax deductions for capital expenditures. The increase in estimated 2012 current taxes reflects revisions to the estimated timing of tax deductions for capital expenditures.

Canadian Oil Sands is estimating 2012 cash flow from operations of \$1,461 million, or \$3.02 per Share. After deducting forecast 2012 capital expenditures, we estimate \$337 million in remaining cash flow from operations for the year, or \$0.69 per Share.

We expect cash levels to decrease significantly over the next several years as we fund the major capital projects and repay the 2013 debt maturity. As a result, net debt levels should rise to a more normalized level of \$1 billion to \$2 billion by the end of 2014, coincident with reduced capital risk from the completion of our 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 27, 2012)

Variable ¹	Annual Sensitivity	Cash Flow from Operations Increase	
		\$ millions	\$ / Share
Syncrude operating expenses decrease	Cdn\$1.00/bbl	\$ 33	\$ 0.07
Syncrude operating expenses decrease	Cdn\$50 million	\$ 15	\$ 0.03
WTI crude oil price increase	U.S.\$1.00/bbl	\$ 35	\$ 0.07
Syncrude production increase	2 million bbls	\$ 52	\$ 0.11
Canadian dollar weakening	U.S.\$0.01/Cdn\$	\$ 31	\$ 0.06
AECO natural gas price decrease	Cdn\$0.50/GJ	\$ 25	\$ 0.05

¹ 2012 cash flow from operations sensitivities are not expected to be significantly impacted by income taxes; however, in 2013, Canadian Oil Sands expects to record current taxes of approximately [\$400] million.

The 2012 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

Centrifuge Tailings Management project

Syncrude is planning to construct a centrifuge plant as part of its multi-pronged approach to manage tailings and comply with government regulations, as specified in the Energy Resources and Conservation Board ("ERCB") Directive 074. The plant is estimated to cost \$1.9 billion (\$0.7 billion net to Canadian Oil Sands), reflecting a fully-engineered cost estimate with an estimated accuracy range of plus or minus 15 per cent. Construction of the plant is expected to be completed in the first half of 2015. Syncrude has piloted centrifuge technology, compared it to alternative methods for processing tailings and believes centrifuge technology is an effective solution for meeting the requirements of its plan submitted under Directive 074. Centrifuge technology produces a soft, clay-rich soil that can be used in Syncrude's reclamation efforts. Syncrude continues to work with other oil sands operators as part of the Canadian Oil Sands Innovation Alliance ("COSIA") to research and develop tailings management technologies.

The following tables provide cost and schedule estimates for Syncrude's major projects. Costs for the Centrifuge Tailings Management project are now included in 2012, 2013 and 2014 spending estimates. Regular maintenance capital costs post 2012 will be provided on an annual basis with the budget for the following year, and are currently estimated to average approximately \$10 per barrel over the next few years.

Major Projects – Total Project Cost and Schedule Estimates¹

		Spent to Dec 31, 2011 (\$ billions)	Total Cost Estimate (\$ billions)	Estimated % Accuracy	Target In-Service Date
Mildred Lake					
Mine Train Replacement	Syncrude	\$ 0.5	\$ 4.2	+15%/-15%	Q4 2014
Reconstruct crushers, surge facilities, and slurry prep facilities to support tailings storage requirements	COS share	0.2	1.6		
Aurora North Mine Train Relocation	Syncrude	\$ 0.2	\$ 1.0	+15%/-15%	Q1 2014
Relocate crushers, surge facilities, and slurry prep facilities to support tailings storage requirements	COS share	0.1	0.4		
Aurora North Tailings Management	Syncrude	\$ 0.2	\$ 0.8	+15%/-15%	Q4 2013
Construct a composite tails (CT) plant at the Aurora North mine to process tailings	COS share	0.1	0.3		
Centrifuge Tailings Management	Syncrude	\$ -	\$ 1.9	+15%/-15%	H1 2015
Construct a centrifuge plant at the Mildred Lake mine to process tailings	COS share	-	0.7		

Major Projects – Annual Spending Profile¹

(\$ billions)	Spent to Dec 31, 2011	2012	2013	2014	2015
Syncrude	\$ 0.9	\$ 1.9	\$ 2.6	\$ 2.2	\$ 0.3
Canadian Oil Sands share	\$ 0.4	\$ 0.7	\$ 0.9	\$ 0.8	\$ 0.2

¹ Major projects costs include capital expenditures, excluding capitalized interest, and certain non-production expenses.

The forecast of the spending profile for Syncrude's major projects has been refined based on the completion of detailed execution plans and the awarding of major contracts and subcontracts. The expected completion dates and estimated total costs for the major projects are not affected.

Construction on the SER project was essentially complete at the end of 2011 at a cost of approximately \$1.5 billion (gross to Syncrude). The project is expected to be in service in the second half of 2012.

Canadian Oil Sands plans to finance these major projects primarily with cash flow from operations and existing cash balances.

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 23, 2012 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	
	2012	2011	2012	2011
<i>(millions of Canadian dollars, except per Share and Share volume amounts)</i>				
Sales	\$ 882	\$ 1,092	\$ 2,019	\$ 2,175
Crown royalties (Note 14)	(16)	(98)	(112)	(169)
Revenues	866	994	1,907	2,006
Expenses				
Operating	413	347	734	734
Non-production	26	25	50	58
Crude oil purchases and transportation	142	47	323	114
Administration	8	4	14	13
Insurance	2	2	4	4
Depreciation and depletion	93	97	188	192
	684	522	1,313	1,115
Earnings from operating activities	182	472	594	891
Foreign exchange loss (gain) (Note 9)	26	(8)	10	(30)
Net finance expense (Note 10)	16	15	23	29
Earnings before taxes	140	465	561	892
Tax expense (Note 11)	39	119	139	222
Net income	101	346	422	670
Other comprehensive loss, net of income taxes				
Actuarial loss on employee future benefit plans (Note 8)	(30)	(4)	(30)	(4)
Reclassification of derivative gains to net income	(1)	-	(2)	(1)
Comprehensive income	\$ 70	\$ 342	\$ 390	\$ 665
Weighted average Shares (millions)	485	485	485	485
Shares, end of period (millions)	485	485	485	485
Net income per Share				
Basic and diluted	\$ 0.21	\$ 0.71	\$ 0.87	\$ 1.38

See Notes to Unaudited Consolidated Financial Statements

Consolidated Statements of Shareholders' Equity

(unaudited)

<i>(millions of Canadian dollars)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	2012	2011
Retained earnings				
Balance, beginning of period	\$ 1,693	\$ 1,261	\$ 1,517	\$ 1,034
Net income	101	346	422	670
Actuarial loss on employee future benefit plans	(30)	(4)	(30)	(4)
Dividends	(170)	(145)	(315)	(242)
Balance, end of period	1,594	1,458	1,594	1,458
Accumulated other comprehensive income				
Balance, beginning of period	11	14	12	15
Reclassification of derivative gains to net income	(1)	-	(2)	(1)
Balance, end of period	10	14	10	14
Shareholders' capital				
Balance, beginning of period	2,673	2,672	2,673	2,671
Issuance of shares	-	-	-	1
Balance, end of period	2,673	2,672	2,673	2,672
Contributed surplus				
Balance, beginning of period	9	8	8	7
Share-based compensation	-	-	1	1
Balance, end of period	9	8	9	8
Total Shareholders' equity	\$ 4,286	\$ 4,152	\$ 4,286	\$ 4,152

See Notes to Unaudited Consolidated Financial Statements

Consolidated Balance Sheets

(unaudited)

<i>(millions of Canadian dollars)</i>	As at	
	June 30 2012	December 31 2011
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,618	\$ 718
Accounts receivable	219	376
Inventories	135	142
Prepaid expenses	1	10
	1,973	1,246
Property, plant and equipment, net (Note 4)	7,541	7,227
Exploration and evaluation	89	89
Reclamation trust	63	58
	\$ 9,666	\$ 8,620
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	\$ 554	\$ 479
Current taxes	20	-
Current portion of employee future benefits	76	47
	650	526
Employee future benefits and other liabilities	472	480
Long-term debt (Note 6)	1,837	1,132
Asset retirement obligation (Note 7)	1,048	1,008
Deferred taxes	1,373	1,264
	5,380	4,410
Shareholders' equity	4,286	4,210
	\$ 9,666	\$ 8,620

Commitments and Contingency (Notes 13 and 14, respectively)

See Notes to Unaudited Consolidated Financial Statements

Consolidated Statements of Cash Flows

(unaudited)

(millions of Canadian dollars)	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	2012	2011
Cash from (used in) operating activities				
Net income	\$ 101	\$ 346	\$ 422	\$ 670
Items not requiring an outlay of cash				
Depreciation and depletion	93	97	188	192
Accretion of asset retirement obligation (Note 10)	7	4	13	8
Foreign exchange (gain) loss on long-term debt (Note 9)	36	(9)	16	(34)
Deferred tax expense (Note 11)	19	119	119	222
Share-based compensation	3	(4)	3	2
Actual reclamation expenditures (Note 7)	1	(2)	(42)	(31)
Change in employee future benefits and other liabilities	(15)	(7)	(20)	(7)
	245	544	699	1,022
Change in non-cash working capital (Note 15(a))	117	(17)	229	(36)
Cash from operating activities	362	527	928	986
Cash from (used in) financing activities				
Issuance of senior notes (Note 6)	-	-	689	-
Repayment of bank credit facilities	-	-	-	(145)
Issuance of shares	-	-	-	1
Dividends	(170)	(145)	(315)	(242)
Cash from (used in) financing activities	(170)	(145)	374	(386)
Cash from (used in) investing activities				
Capital expenditures	(292)	(140)	(433)	(249)
Reclamation trust funding	(2)	(1)	(5)	(3)
Change in non-cash working capital (Note 15(a))	18	6	36	8
Cash used in investing activities	(276)	(135)	(402)	(244)
Increase (decrease) in cash and cash equivalents	(84)	247	900	356
Cash and cash equivalents, beginning of period	1,702	189	718	80
Cash and cash equivalents, end of period	\$ 1,618	\$ 436	\$ 1,618	\$ 436
Cash and cash equivalents consist of:				
Cash	\$ 105	\$ 12	\$ 105	\$ 12
Short-term investments	1,513	424	1,513	424
	\$ 1,618	\$ 436	\$ 1,618	\$ 436

Supplementary Information (Note 15)

See Notes to Unaudited Consolidated Financial Statements

Notes to Unaudited Consolidated Financial Statements For the Three and Six Months Ended June 30, 2012

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

1) Nature of Operations

Canadian Oil Sands Limited ("Canadian Oil Sands" or the "Corporation") was incorporated under the laws of the Province of Alberta, Canada in 2010 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 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. Each joint-venture owner, including the Corporation, takes its proportionate share of production in kind, and funds its proportionate share of Syncrude's operating and capital costs on a daily basis. Syncrude Canada Ltd. ("Syncrude Canada") operates Syncrude on behalf of the joint-venture 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: 2500 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, like 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 July 27, 2012.

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, 2011.

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, 2011 except for current income taxes which, in interim periods, are accrued based on an estimate of the annualized effective tax rate applied to year-to-date earnings.

4) Property, Plant and Equipment, Net

Six Months Ended June 30, 2012									
(\$ millions)	Upgrading and extracting	Mining equipment	Vehicles and equipment	Buildings	Asset Retirement costs	Major Turnaround costs	Construction in progress	Mine development	Total
Cost									
Balance at January 1, 2012	\$ 4,688	\$ 1,417	\$ 690	\$ 310	\$ 931	\$ 114	\$ 1,144	\$ 393	\$ 9,687
Additions	–	–	–	–	–	67	366	–	433
Change in asset retirement costs	–	–	–	–	69	–	–	–	69
Retirements	(3)	(1)	(16)	(1)	–	–	–	(1)	(22)
Reclassifications ¹	–	–	21	11	–	–	(32)	–	–
Balance at June 30, 2012	\$ 4,685	\$ 1,416	\$ 695	\$ 320	\$ 1,000	\$ 181	\$ 1,478	\$ 392	\$ 10,167
Accumulated depreciation									
Balance at January 1, 2012	\$ 1,284	\$ 480	\$ 294	\$ 100	\$ 138	\$ 53	\$ –	\$ 111	\$ 2,460
Depreciation	82	32	28	4	20	17	–	5	188
Retirements	(3)	(1)	(16)	(1)	–	–	–	(1)	(22)
Reclassifications	–	–	–	–	–	–	–	–	–
Balance at June 30, 2012	\$ 1,363	\$ 511	\$ 306	\$ 103	\$ 158	\$ 70	\$ –	\$ 115	\$ 2,626
Net book value at June 30, 2012									
	\$ 3,322	\$ 905	\$ 389	\$ 217	\$ 842	\$ 111	\$ 1,478	\$ 277	\$ 7,541

Year Ended December 31, 2011									
(\$ millions)	Upgrading and extracting	Mining equipment	Vehicles and equipment	Buildings	Asset Retirement costs	Major Turnaround costs	Construction in progress	Mine development	Total
Cost									
Balance at January 1, 2011	\$ 4,669	\$ 1,381	\$ 688	\$ 304	\$ 362	\$ 103	\$ 694	\$ 345	\$ 8,546
Additions	–	–	–	–	–	43	600	–	643
Change in asset retirement costs	–	–	–	–	569	–	–	–	569
Retirements	(6)	(9)	(22)	(1)	–	(32)	–	(1)	(71)
Reclassifications ¹	25	45	24	7	–	–	(150)	49	–
Balance at December 31, 2011	\$ 4,688	\$ 1,417	\$ 690	\$ 310	\$ 931	\$ 114	\$ 1,144	\$ 393	\$ 9,687
Accumulated depreciation									
Balance at January 1, 2011	\$ 1,092	\$ 449	\$ 264	\$ 100	\$ 103	\$ 50	\$ –	\$ 92	\$ 2,150
Depreciation	169	92	54	7	14	35	–	10	381
Retirements	(6)	(9)	(22)	(1)	–	(32)	–	(1)	(71)
Reclassifications	29	(52)	(2)	(6)	21	–	–	10	–
Balance at December 31, 2011	\$ 1,284	\$ 480	\$ 294	\$ 100	\$ 138	\$ 53	\$ –	\$ 111	\$ 2,460
Net book value at December 31, 2011									
	\$ 3,404	\$ 937	\$ 396	\$ 210	\$ 793	\$ 61	\$ 1,144	\$ 282	\$ 7,227

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, 2012, interest costs of \$21 million and \$41 million, respectively, were capitalized and included in property, plant and equipment (three and six months ended June 30, 2011 – \$13 million and \$24 million, respectively) based on 6.5 per cent and 6.9 per cent interest capitalization rates for the three and six months ended June 30, 2012, respectively (7.3 per cent for the three and six months ended June 30, 2011).

5) Bank Credit Facilities

During the three months ended June 30, 2012, the Corporation extended the terms of its credit facilities by one year. The term of the \$1,500 million operating credit facility was extended to June 1, 2016 and the \$40 million extendible revolving term credit facility to June 30, 2014. No amounts were drawn against these facilities at June 30, 2012 (December 31, 2011 – \$nil).

6) Long-Term Debt

On March 29, 2012, the Corporation issued U.S. \$400 million of 4.50% unsecured Senior Notes maturing April 1, 2022 and U.S. \$300 million of 6.00% unsecured Senior Notes maturing April 1, 2042. Interest on the new Senior Notes is payable semi-annually on April 1 and October 1. The Senior Notes are unsecured, rank pari passu with other senior unsecured debt of the Corporation, and contain certain covenants that place limitations on the sale of assets and the granting of liens or other security interests.

7) Asset Retirement Obligation

The Corporation and each of the other Syncrude owners are liable for their share of ongoing environmental obligations related to the ultimate reclamation of the Syncrude properties on abandonment. The Corporation estimates reclamation expenditures will be made progressively over the next 70 years and has applied a risk-free interest rate of 2.25 per cent at June 30, 2012 (December 31, 2011 – 2.50 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.

The following table presents the reconciliation of the beginning and ending aggregate carrying amount of the Corporation's share of the obligation associated with the retirement of the Syncrude properties:

<i>(\$ millions)</i>	Six Months Ended June 30 2012	Year Ended December 31 2011
Asset retirement obligation, beginning of period	\$ 1,037	\$ 501
Change in estimated liability	–	471
Liabilities settled	(42)	(49)
Accretion expense	13	16
Change in risk-free interest rate	69	98
Asset retirement obligation, end of period	\$ 1,077	\$ 1,037
Less current portion	(29)	(29)
Non-current portion	\$ 1,048	\$ 1,008

The increase in the asset retirement obligation from \$1,037 million at December 31, 2011 to \$1,077 million at June 30, 2012 reflects a decrease in the risk-free interest rate used to discount future reclamation payments and accretion of the discounted liability, partially offset by reclamation spending.

The total undiscounted estimated cash flows required to settle the Corporation's share of the asset retirement obligation were \$2,168 million at June 30, 2012 (December 31, 2011 – \$2,210 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, 2012 and 2011 is based on its 36.74 per cent working interest. The costs have been recorded in operating expenses and other comprehensive income as follows:

(\$ millions)	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	2012	2011
Operating expenses				
Defined benefit plans				
Pension plan	\$ 14	\$ 8	\$ 21	\$ 15
Other post employment benefits plan	1	1	2	2
	\$ 15	\$ 9	\$ 23	\$ 17
Defined contribution plans	1	1	2	2
	\$ 16	\$ 10	\$ 25	\$ 19
Other comprehensive income				
Defined benefit plans				
Actuarial loss on pension plan	30	5	30	5
Total benefit cost	\$ 46	\$ 15	\$ 55	\$ 24

The Corporation's share of the estimated unfunded portion of Syncrude Canada's pension and other post-employment benefit plans increased to \$476 million at June 30, 2012 from \$465 million at December 31, 2011 reflecting a 0.25 per cent decrease in the interest rate used to discount estimated future pension costs to 4.0 per cent, partially offset by Syncrude Canada's contributions to the plans during the six months ended June 30, 2012. For the three and six months ended June 30, 2012, a \$30 million actuarial loss, net of \$10 million in deferred taxes, has been recognized in other comprehensive income to reflect the change in the discount rate. A liability for the \$476 million unfunded balance is recognized on the June 30, 2012 Consolidated Balance Sheet.

9) Foreign Exchange

(\$ millions)	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	2012	2011
Foreign exchange (gain) loss – long-term debt	\$ 36	\$ (9)	\$ 16	\$ (34)
Foreign exchange (gain) loss – other	(10)	1	(6)	4
Total foreign exchange (gain) loss	\$ 26	\$ (8)	\$ 10	\$ (30)

10) Net Finance Expense

(\$ millions)	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	2012	2011
Interest costs	\$ 30	\$ 24	\$ 51	\$ 45
Less capitalized interest	(21)	(13)	(41)	(24)
Interest expense	9	11	10	21
Accretion of asset retirement obligation	7	4	13	8
Net finance expense	\$ 16	\$ 15	\$ 23	\$ 29

11) Tax Expense

(\$ millions)	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	2012	2011
Current tax expense	\$ 20	\$ -	\$ 20	\$ -
Deferred tax expense	19	119	119	222
Total tax expense	\$ 39	\$ 119	\$ 139	\$ 222

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, 2012 and December 31, 2011 was as follows:

(\$ millions, except % amounts)	June 30 2012	December 31 2011
Long-term debt	\$ 1,837	\$ 1,132
Cash and cash equivalents	(1,618)	(718)
Net debt ^{1,2}	\$ 219	\$ 414
Shareholders' equity	\$ 4,286	\$ 4,210
Total net capitalization ^{1,3}	\$ 4,505	\$ 4,624
Total capitalization ^{1,4}	\$ 6,123	\$ 5,342
Net debt to total net capitalization ^{1,5} (%)	5	9
Total debt to total capitalization ^{1,6} (%)	30	21

¹ Net debt, total net capitalization, total capitalization, net debt to total net capitalization, and total debt to total capitalization are non-GAAP measures.

² Long-term debt less cash and cash equivalents.

³ Net debt plus Shareholders' equity.

⁴ Long-term debt plus Shareholders' equity.

⁵ Net debt divided by total net capitalization.

⁶ Long-term debt divided by total capitalization.

Net debt, comprised of long-term debt less cash and cash equivalents, decreased to \$0.2 billion at June 30, 2012 from \$0.4 billion at December 31, 2011 as Canadian Oil Sands generated cash from operating activities of \$928 million in the six months ended June 30, 2012, exceeding capital expenditures and dividend payments of \$433 million and \$315 million, respectively. In addition, a reduction in investing non-cash working capital balances increased cash and cash equivalents by \$36 million.

Shareholders' equity increased to \$4.3 billion at June 30, 2012 from \$4.2 billion at December 31, 2011, as net income exceeded dividends in the six months ended June 30, 2012.

As disclosed in Notes 9 and 10 to the 2011 annual consolidated financial statements, the Corporation is bound by certain debt covenants; however, these covenants do not specifically limit the Corporation's ability to pay dividends. The Corporation monitors its total debt-to-total capitalization, as it must be less than 55 per cent according to certain financial covenants. With a net debt-to-total capitalization of five per cent at June 30, 2012, the Corporation is well within its limits and a significant increase in debt or decrease in equity would be required to negatively impact the Corporation's financial flexibility.

13) Commitments

Commitments are summarized in Canadian Oil Sands' 2011 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. During the six months ended June 30, 2012, Canadian Oil Sands entered into new contractual obligations totalling approximately \$1.2 billion for the transportation and storage of crude oil in support of the Corporation's strategy to secure access to preferred markets and enhance marketing flexibility. The Corporation also assumed \$130 million in new funding commitments relating to major capital projects, increased its funding commitment by \$120 million in respect of Syncrude Canada's registered pension plan, and assumed \$84 million in new commitments related to Syncrude Canada's employee retention program.

14) Contingency

Crown royalties include 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 North American heavy oil reference prices adjusted for reasonable quality, transportation and handling deductions (including diluent costs) to reflect the quality and location differences between Syncrude's bitumen and the reference price of bitumen. Canadian Oil Sands' share of the royalties recognized for the period from January 1, 2009 to June 30, 2012 are estimated to be approximately \$45 million lower than the amount calculated using the Alberta-government-provided bitumen value for Syncrude. The Syncrude owners and the Alberta government continue to discuss the basis for reasonable quality, transportation, and other adjustments 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, will be recognized immediately and will impact both net income and cash from operating activities accordingly.

15) Supplementary Information

a) Change in Non-Cash Working Capital

(\$ millions)	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	2012	2011
Operating activities:				
Accounts receivable	\$ 106	\$ 42	\$ 157	\$ 3
Inventories	14	(9)	7	2
Prepaid expenses	4	2	9	5
Accounts payable and accrued liabilities	15	(50)	95	(37)
Less: A/P and A/R changes reclassified to investing and other	(22)	(2)	(39)	(9)
Change in operating non-cash working capital	\$ 117	\$ (17)	\$ 229	\$ (36)
Investing activities:				
Accounts payable and accrued liabilities	\$ 18	\$ 6	\$ 36	\$ 8
Change in investing non-cash working capital	\$ 18	\$ 6	\$ 36	\$ 8

b) Income Taxes and Interest Paid

(\$ millions)	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	2012	2011
Income taxes paid	\$ –	\$ –	\$ –	\$ –
Interest paid	\$ 22	\$ 27	\$ 45	\$ 46

Income taxes and interest payments are included within cash from operating activities on the Consolidated Statements of Cash Flows.

Canadian Oil Sands Limited
Marcel Coutu
President & Chief Executive Officer

Shares Listed – Symbol: COS
Toronto Stock Exchange

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