Canadian Oil Sands

2013 Annual Report

Investing in Tomorrow

Canadian Oil Sands Limited (COS) is a pure investment opportunity in light, sweet crude oil. We are the largest owner in the Syncrude project with a 36.74% interest. Syncrude is a leader in Canada's oil sands industry, producing a high-quality crude oil in an environmentally and socially responsible manner. Through our Syncrude asset, COS offers a robust, long-life crude oil production stream, potential growth through high-quality oil sands leases and a history of paying dividends to shareholders.

Inside this Report

IMPORTANT:
Please read the Advisories regarding forward-looking information and additional GAAP and non-GAAP financial measures on page 78.

A Syncrude environmental scientist at Base Mine Lake. Syncrude has been studying Water Capping reclamation technology for more than 20 years as a way to remediate fluid fine tails. See pages 12–13.

In a dynamic industry landscape, our core values remain unchanged. Our 2013 annual report focuses on our belief and strategy of investing in tomorrow.

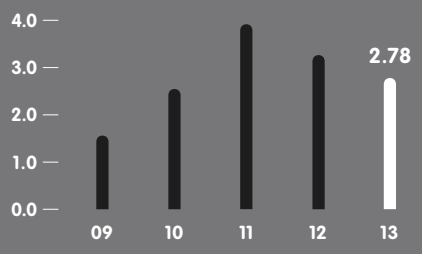
2013 Results

All references to "dollars , "$" or "C$" are in Canadian dollars and all references to "US$" are in United States dollars	2013	2012[1]	% change
Financial ($ millions, except per share amounts)			
Sales, after crude oil purchases and transportation expense	**3,565**	3,566	0%
Cash flow from operations[2]	**1,349**	1,581	–15%
Per share[2]	**2.78**	3.26	–15%
Net income	**834**	973	–14%
Per share, basic and diluted	**1.72**	2.01	–14%
Dividends	**678**	654	4%
Per share	**1.40**	1.35	4%
Financial Ratios			
Net debt-to-cash flow from operations (times)[3]	**0.6**	0.2	
Net debt-to-total net capitalization (%)[2]	**14**	5	
Return on average shareholders' equity (%)[3]	**18**	22	
Return on average productive capital employed (%)[3, 4]	**18**	20	
Operations			
Sales volumes, net of crude oil purchases[5]			
Total (mmbbls)	**35.8**	38.7	–7%
Daily average (bbls)	**98,037**	105,680	–7%
Operating expenses ($ millions)	**1,494**	1,505	–1%
Operating expenses ($/bbl)	**41.75**	38.91	7%
Capital expenditures ($ millions)	**1,342**	1,086	24%
Realized SCO selling price ($/bbl)	**99.55**	91.90	8%
Average West Texas Intermediate (US$/bbl)	**98.05**	94.15	4%
Average foreign exchange rate (US$/C$)	**0.97**	1.00	–3%
Share Information			
Closing price on December 31 ($/share)	**19.98**	20.17	
Number of shares outstanding (in millions)	**484.6**	484.6	
Total shareholder return (%)	**6**	8	
S&P/TSX Oil & Gas Index (%)	**14**	–11	

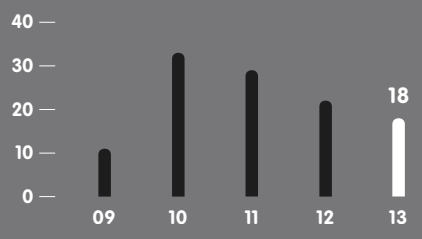
A five-year statistical summary is provided on page 80.

1 Operating expense, net income, net income per share, return on average productive capital employed and return on average shareholders' equity have been adjusted in 2012 to reflect the amendments to International Accounting Standard ("IAS") 19, *Employee Benefits*, which were adopted on January 1, 2013.
2 Additional GAAP measure as defined in the Additional GAAP and Non-GAAP Financial Measures Advisory.
3 Non-GAAP measure as defined in the Additional GAAP and Non-GAAP Financial Measures Advisory.
4 The calculation for this Non-GAAP measure was adjusted in 2013 and prior year amounts are restated to conform to the current year calculation.
5 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.

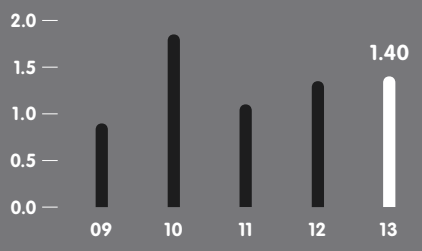
Cash Flow from Operations
($ per share)



Return on Average Shareholders Equity
(%)



Dividends
($ per share)



RYAN M. KUBIK
President and Chief Executive Officer

Dear Shareholders,

In my first letter to you as President and CEO, I would like to begin by thanking our shareholders for your support. We have a world-class asset in our Syncrude project and a strategy to deliver long-term value to our shareholders. In my 11 years with the Company, the last seven as Chief Financial Officer, I have helped build that strategy. My focus as CEO will remain on the critical success factors of operational reliability, environmental performance, capital cost discipline and efficient financial management.

An electric shovel loads a Caterpillar 797 Heavy Hauler at Syncrude's North Mine at sunrise.

invest

Syncrude's upgrading facility converts bitumen to a light, sweet crude oil.

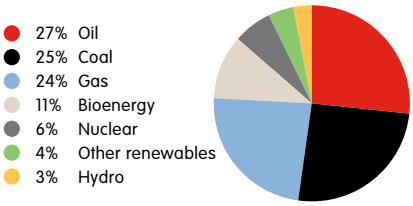
achieve

"Investing in Tomorrow means developing new technologies and practices, both on the operational and environmental fronts."

The highlight in 2013 was the progress achieved on Syncrude's four major capital projects, which led to this year's annual report theme, *Investing in Tomorrow*. We believe these projects, and other initiatives underway to grow production organically, position Syncrude with a solid foundation for decades of crude oil production.

Investing in Tomorrow also means developing new technologies and practices. Syncrude invests about $60 million annually in research and development. In this annual report, we feature two areas in which R&D investment is improving our operations and environmental performance. There are many more (see www.research.syncrude.ca). Responsible development is a prime focus at COS as we represent our shareholders and their interests in an important energy resource.

World Energy Demand by 2035



SOURCE: International Energy Agency World Energy Outlook 2013 (New Policies Scenario)

Major projects on track

In 2013 Syncrude made significant progress on its four major capital projects. At the Aurora North Mine, the relocation of two mine trains and construction of a tailings management plant were completed; both ahead of schedule and about 15% under the total budgeted cost of $1.8 billion (gross to Syncrude). The remaining two projects are progressing very well. At the end of 2013, we reached 80% completion on the Mildred Lake Mine Train Replacements, the largest of our capital projects with an estimated cost of $4.2 billon (gross to Syncrude). That project is targeted to be in-service prior to year end. The Centrifuge Tailings Management project reached about 70% completion and is on schedule to be in-service the first half of 2015.

Finance plan on track

At COS, we are ahead of where we had projected to be in our finance plan. Stronger than expected financial results supported our ability to fund our share of the capital program and our dividend, which totalled $1.40 per share in 2013. Cash flow from operations of $1.3 billion was 29% higher than originally budgeted, reflecting strong pricing for our Syncrude crude oil.

With only about one year remaining until completion of the major projects and with the associated risk significantly reduced, we are comfortably positioned to meet our funding commitments. After 2014, capital spending is expected to decline significantly.

Focused on operational improvements

Syncrude produced 97.5 million barrels in 2013, which was about 11% below budgeted volumes for the year and lower than the 105 million barrels Syncrude has averaged over the last seven years. The shortfall was largely due to unplanned maintenance in extraction, and extended turnarounds of upgrading units.

The extraction reliability issues were mainly in the crushing and conveyor systems in our mine trains; these will be renewed or replaced by the end of 2014 as part of Syncrude's mine train projects. At the Aurora North Mine, the crushers and material handling components have already been rebuilt as part of the train relocation project, and the trains have been performing very well. At the Mildred Lake Mine, new mine trains should be in operation before the end of the year. These trains feature greater capacity and wet crushing technology, which should improve reliability (see pages 10 and 11).

Production in 2013 was also impacted by extended turnarounds of the Coker 8-1, LC-Finer and secondary upgrading units. Syncrude has identified inefficiencies in turnaround planning and scheduling, and will incorporate that knowledge into future turnarounds.

Unlocking production

Syncrude is focused on improving reliability to unlock higher production levels from the current facility and, as always, managing costs. They remain committed to implementing comprehensive systems and processes to grow production volumes over the long term. Significant progress was achieved in 2013.

ExxonMobil's proprietary Operations Integrity Management System (OIMS) was fully implemented last year. OIMS establishes expectations and requirements for addressing safety, health, environmental and social risk. This system is proven in ExxonMobil's world-leading refinery operations and made available to Syncrude as part of the Management Services Agreement (MSA). Work under the MSA has also identified several initiatives to help remove production constraints.

Globally, the demand for crude oil is forecast to grow. COS has a marketing and logistics strategy to respond to this rapidly evolving market.

Upgrades are currently being made on the bitumen centrifuges to reduce solids in the bitumen froth entering the upgrader, which was leading to leaks and unexpected down-time. Analysis also indicated enhancements on heat exchangers would improve the functioning of Syncrude's hydrogen plants. Modifications on the bitumen centrifuges and hydrogen plants are scheduled to be complete in 2014, and should help reduce outages that resulted in the loss of millions of barrels of production in recent years.

Long-life crude oil reserves

Syncrude has an extensive undeveloped, top-tier bitumen mining resource. With high grades of ore and low stripping ratios—the amount of bitumen versus clay and other materials—the economics of developing Syncrude's leases should be competitive with other oil sands development projects.

Syncrude's next development is to extend the North Mine, referred to as the Mildred Lake Extension (MLX) project. This work is slated to begin towards the end of the decade, pending regulatory approval. The economics are very attractive. The plan is to utilize existing mine infrastructure, which will reduce the capital required to produce bitumen for the upgrader as well as minimize the overall environmental footprint and land disturbance. Evaluation is also underway for development of the Aurora South leases in the middle of the next decade.

The bottom line is that Syncrude has decades of resource to be developed and an upgrader to process that product for long-term exposure to a premium, sweet crude oil.

Shifting market dynamics

Our competitive landscape has changed. Crude oil production in North America has been growing dramatically with the rapid development of tight oil plays, which are delivering more light oil into the market. This dynamic may ultimately require COS to seek more distant refinery markets for some of our volumes.

In the face of new supply growth, Syncrude has many advantages. First, its cost structure is competitive with other sources of unconventional crude oil. This stems from having an established, long-life resource base with low development risk and capital assets in the ground providing non-declining production.

Syncrude's product quality is also an advantage. Syncrude's synthetic crude oil is a premium grade product compared to conventional light, sweet crude. It has attributes that make Syncrude crude oil more amenable for refining into higher value distillate products. We expect our Syncrude product will continue to be in strong demand by refineries. Nonetheless, we would be better positioned if we had access to offshore markets.

Globally, the demand for crude oil is forecast to grow. COS has a marketing and logistics strategy to respond to this rapidly evolving market. We have secured firm access to new markets through capacity commitments on proposed pipelines to Canada's west and east coasts and the U.S. gulf coast. As well, we have contracted storage capacity in Western Canada. These steps will help us manage transportation constraints and extend market reach in order to realize the best selling price for our product.

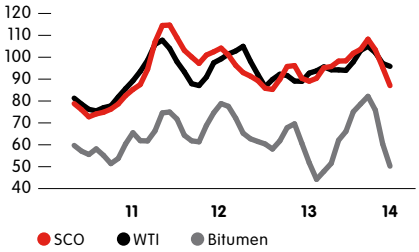
We are in a position to provide a long-term source of crude oil for a world that will continue to require crude oil to meet energy needs. According to the International Energy Agency, approximately 30% of the new oil production needed to meet demand between now and 2035 will come from fields that are yet to be found. This outlook continues to make the oil sands industry a vibrant sector, attracting capital investment from multi-national firms, particularly for high-quality assets and projects.

Disciplined management of your investment

While the dynamics of North American and global crude oil markets continue to evolve, so do investor expectations regarding energy investments. The COS team works to enhance value for shareholders on all fronts. We are actively sourcing markets for our share of Syncrude production to optimize the price we receive. We are efficient financial managers and disciplined in our capital spending in order to generate free cash flow to support dividends. As we continue to invest for the future, we are actively stewarding the Syncrude operations for better operational efficiency and cost control.

We remain focused on a strong balance sheet to control risk throughout the commodity price cycle, enabling us to deliver long-term value from our significant resource base. Our strategies of fully unhedged sales prices and capital discipline, endorsed by our investors, are key elements driving our free cash flow, and ultimately, our dividends.

SCO vs. WTI vs. Bitumen Pricing
Trailing 3-month average
($US/bbl)



I am very proud to lead the COS team going forward, and honoured to be following in Marcel Coutu's footsteps; he exemplified teamwork, integrity and passion for our business, and I am deeply grateful for his mentorship. Finally, I would like to thank our Board of Directors for their support. Together our goal is to deliver industry-leading shareholder returns.

(signed)

Ryan M. Kubik
President and CEO
February 20, 2014

MARCEL R. COUTU
Former President and Chief Executive Officer

Tribute to Marcel Coutu

On January 1, 2014, Marcel Coutu retired as President and CEO of Canadian Oil Sands. Over his 12-year tenure with the Company, Marcel transformed COS from a $2 billion market cap income trust with a 21.74% Syncrude interest into a $10 billion market cap corporation with a 36.74% Syncrude interest. During his tenure, COS delivered a 14% compound total return through share price appreciation and dividends totaling $7 billion. In addition to his leadership at COS, Marcel has been a great champion of the oil sands, declaring it Canada's national treasure. We wish Marcel well in his retirement and thank him for his dedication to COS and the oil sands industry.

Teamwork is a core value at Syncrude, and key to a safe, reliable, efficient operation.

improve

“ Long-life reserves, high-quality, light crude oil production and attractive margins position us to generate strong returns for shareholders well into the future. ”

Tracking Performance

In 2013, we achieved a critical objective of advancing Syncrude's major projects. The objectives to improve production and per barrel operating expenses, however, did not meet our targets. We are not satisfied with the operating performance in 2013 and will continue working closely with Syncrude to realize higher production volumes in 2014 and over the coming years while managing costs.

Objectives set for 2013

- **Increase production by about 5%, equivalent to five million barrels gross to Syncrude, over 2012 production.** In 2013 Syncrude produced 97.5 million barrels of synthetic crude oil, a decrease of 7.4 million barrels from 2012. Production in 2013 was affected by unplanned maintenance in extraction and delays completing turnarounds on the Coker 8-1, LC Finer and secondary upgrading units. Syncrude is in the process of renewing or replacing its extraction equipment, and is addressing inefficiencies identified in 2013 in its planning and scheduling of turnaround activity.
- **Improve per barrel operating expenses in 2013 over 2012.** Total operating expenses were similar in 2013 and 2012, and in fact, have remained fairly stable over the past 3 years; however, per barrel operating expenses rose in 2013 over 2012 as a result of lower production. Operating expenses in 2013 were $41.75 per barrel, $3 per barrel higher than 2012. The best opportunity to reduce per barrel operating expenses is to increase production, which remains Syncrude's focus.
- **Complete the Aurora North Tailings Management project.** This project was completed ahead of schedule and under budget.
- **Achieve 90% completion on the Aurora North Mine Train Relocations.** These Relocations were completed ahead of schedule and under budget in 2013. On the Aurora North Tailings Management and Aurora North Mine Train Relocations projects, Syncrude realized total savings of about $250 million (gross to Syncrude) over the original cost estimates.
- **Achieve 75% completion on the Mildred Lake Mine Train Replacements.** This project reached an estimated 80% completion in 2013.
- **Invest $25 million ($70 million gross to Syncrude) in research and development, directed at reducing operating expenses, improving reliability, enhancing environmental performance and realizing potential cost savings in environmental initiatives.** We invested $24 million ($66 million gross to Syncrude) in research and development. See **www.research.syncrude.ca** for more information on Syncrude research and development.
- **Aim to maintain a quarterly dividend of $0.35 per share in 2013, based on the assumptions outlined in the 2013 guidance.** A quarterly dividend of $0.35 per share was maintained throughout the year, returning a total of $678 million to shareholders.
- **Maintain a strong balance sheet while remaining unhedged on oil prices, thereby providing investors with the full potential of this commodity.** We exited the year with a strong balance sheet—at December 31, 2013, net debt was about $800 million and long-term debt-to-total capitalization was 25%. We remain unhedged on oil prices.

> “The priority remains to increase production volumes at Syncrude, generating the most economic returns from our investments.”

Looking ahead to 2014

2014 will be a critical year, as Syncrude completes the majority of work related to the major capital projects that commenced in 2011. With the completion of that work, a period of higher capital investment will end. Syncrude will then be positioned for enhanced operating and environmental performance.

We have set the following objectives for Canadian Oil Sands and our Syncrude project for 2014:

- Complete the Mildred Lake Mine Train Replacement project on time and on budget.
- Improve reliability over 2013, achieving production of 105 million barrels at Syncrude.
- Achieve 95% completion on the Centrifuge Tailings Management project.
- Maintain a strong balance sheet with a net debt level of $1 to $2 billion.
- Submit application for approval of the Mildred Lake Extension (MLX) project.

Syncrude to Incorporate Best-in-Class Mining Technology

The technologies needed to unlock the energy and economic potential of the oil sands were invented and commercialized by scientists and entrepreneurs over a period of decades stretching back to the 1920s and 30s. That spirit continues at Syncrude today with a research and development facility dedicated to finding new and better ways to produce oil from the sands more efficiently and economically.

Mildred Lake Mine Train Replacement

2014 will see many changes at Syncrude's Mildred Lake mine site, including a leap to innovative technologies. A $4.2 billion gross to Syncrude project is scheduled for completion; two mine trains which first began operating in 1996 will be fully dismantled, and two new mine trains currently under construction are targeted to be in service in the fourth quarter.

Given the long-life nature of a mining operation, the ability to upgrade to new technologies generally becomes available only every few decades. The construction of these new Mildred Lake mine trains will position Syncrude at the forefront of oil sands mining through the use of best-in-class technologies. It also sets Syncrude up for 10 to 20 years of strong, non-declining production.

Aerial shot of Syncrude's Mildred Lake Mine Train Replacement construction site.

Operational improvements

The new mine trains are designed to increase output and reliability at the Mildred Lake mine. The raw oil sands processing capacity has been increased by 20%. More sensitive detectors will reduce outages caused by metal entering the system. Maintenance costs for these units should decline with the addition of new technologies. Portions of the mine trains can be isolated so that maintenance can be performed while it continues to operate, and the inclusion of overhead cranes and maintenance bays will allow work to be done within the unit itself. These changes are expected to reduce downtime for maintenance from days to hours.

Wet crushing

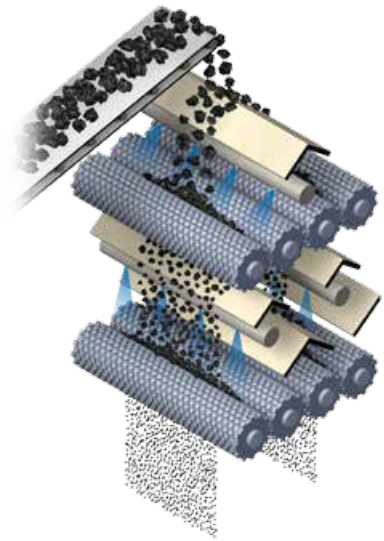
The most innovative component of the new mine trains is the introduction of wet crushing—a Syncrude developed and patented technology.

In the current process, water is added to the feed stream of oil sand which then passes through vibrating screens, and large pieces are rejected; these can be oil sand lumps or waste rock and clay. Not only were the vibrating screens rejecting valuable oil sands, they often led to unplanned maintenance and lost production.

The new wet crushing technology is more efficient and effective. The process is unique in that high pressure water is added to create a slurry which dissolves the oil sand and bitumen. Screening prior to pumping is no longer needed. When the slurry reaches the screening plant, it easily flows through with only large rocks or lumps of clay being rejected and trucked away. With bitumen digested in the slurry, bitumen recovery rates should be higher.

After inventing the concept, Syncrude built a full-scale field pilot in 2006 to test the system and its field performance. Those studies show that wet crushing improves bitumen recovery by a significant margin.

Wet Crushing Technology



Syncrude's patented wet crushing technology introduces water into a double set of crushers.

A Primary Separation Vessel (PSV) uses gravity to create a bitumen froth and separate out the sand, water and clay.

boost

Key Benefits

20% increased capacity at Mildred Lake

New mine trains will increase oil sands processing capacity at Mildred Lake to 28,000–36,000 tonnes per hour.

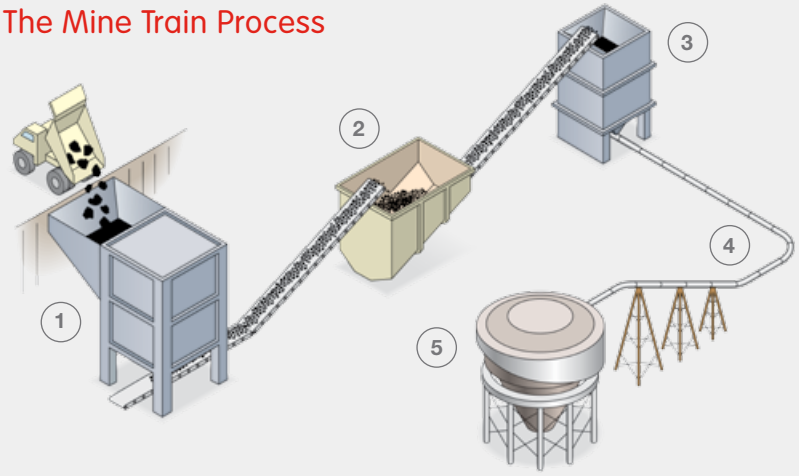
Improved reliability from leading technologies

The opportunity to upgrade to leading technologies should improve efficiency and reliability at the Mildred Lake mine.

Lower and more efficient maintenance

New equipment based on a modular design should lead to easier and more cost-effective maintenance.

The Mine Train Process



A mine train is a modular process for crushing and mixing the oil sands with warm water in preparation for extracting the bitumen.

1) **Primary Crusher:** After mining, the oil sands are broken down into chunks (max. 2 feet).
2) **Surge:** A conveyor belt elevates to a surge bin which regulates the flow of oil sands.
3) **Wet Crushing:** Warm water is added to form a slurry suitable for pumping. At Mildred Lake, this innovative system will reduce the size of oil sands material further (max. 4 inches).
4) **Hydrotransport:** Another Syncrude developed technology—and now the industry standard—where a pipeline transports the slurry to the extraction plant and concurrently conditions it for bitumen separation.
5) **Separation:** The bitumen froth is skimmed off, mixed with a solvent and spun in a centrifuge to remove water and clay solids. The bitumen is then sent to an upgrader.

Innovative Technology for Long-term Environmental Solutions

Innovation has always been a hallmark of oil sands development. Investments into research and development continue to evolve new ways to manage environmental challenges. Syncrude has a long history of inventing the technologies to develop the oil sands responsibly.

What are tailings?

When Syncrude mines oil sands and separates out the bitumen it creates a by-product called "tailings"—something that is part of virtually every mining process in the world. At Syncrude, tailings are composed of a mixture of water, sand, clay, fine solids, residual hydrocarbons and salts—all of which are naturally found in oil sands deposits.

The first step in tailings management is to pump the tailings into settling basins or tailings ponds. The sand settles rapidly, while clay and fine solids (together called fluid fine tailings or FFT) take decades to settle on their own. One of the goals of Syncrude's research and development is to develop technologies to accelerate that process.

Tailings ponds also serve as the source of the recycled water for Syncrude's operation. In the settling process, water rises to the top of the pond and is then reused in the bitumen extraction process. In fact, 80 to 90% of the water required for operations is recycled from settling basins. Without tailings ponds Syncrude would be required to draw all of its water from fresh sources.

The clay and sand material separated out from the tailings will eventually be used to fill in mined-out pits, an important step in reclamation.

Syncrude's multi-pronged approach

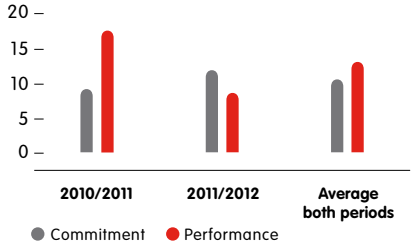
Three technologies form the basis of Syncrude's plan to manage tailings:

1) Water Capping: Using Water Capping, tailings are placed in a mined-out pit and topped with water to form a lake. Syncrude's research into this approach, which began in the 1980s, has shown that these lakes will evolve into natural ecosystems and, over time, support healthy communities of aquatic plants, animals and fish. Syncrude recently became the first in the oil sands to receive government approval to use Water Capping. In 2013, their Water Capping project, Base Mine Lake, became operational and comprehensive scientific monitoring is underway.

2) Composite Tails (CT): With Composite Tails, FFT is combined with gypsum and sand and deposited in a mined-out area. This mixture allows the FFT to settle more quickly and release water. The layer of Composite Tails is capped with sand, creating reclamation ready deposits, and enabling the development of landscapes that support grass, trees and wetlands. In 2013, a CT plant was completed at Syncrude's Aurora North mine and is now operational. A similar plant has been operating at the Mildred Lake mine since 2000.

3) Centrifuges: Syncrude is a leader in the development and use of Centrifuges to accelerate tailings management. They are currently investing $1.9 billion (gross to Syncrude) in a facility which is scheduled to be in service in the first half of 2015. That investment is based on a methodical path to commercialization: a lab-scale proof of concept in 2005; a pilot plant in 2007; a test program with full scale Centrifuges, which began operations in 2012; and the full-scale commercial facility for 2015.

Syncrude's Performance Against Directive 74
(% in volume)



Treatment of tailings is regulated under Directive 74, which was issued by the Alberta Energy Regulator (AER), formerly the Energy Resources and Conservation Board (ERCB).

cosia

Canada's Oil Sands Innovation Alliance (COSIA) is an alliance of oil sands producers focused on accelerating the pace of improvement in environmental performance in Canada's oil sands through collaborative action and innovation.

As a member, Syncrude contributes its tailings technologies, including Centrifuging, which means these technologies are available to other member companies, with the intent of improving performance across the industry.

A Syncrude employee walks atop centrifuge cake a year after the water is spun out of the fluid fine tails in the pilot plant.

What to Know about Centrifuges

The key is centrifugal force

High speed spinning separates out water from the mixture of clay and other fine solids.

Critical to reclamation activities

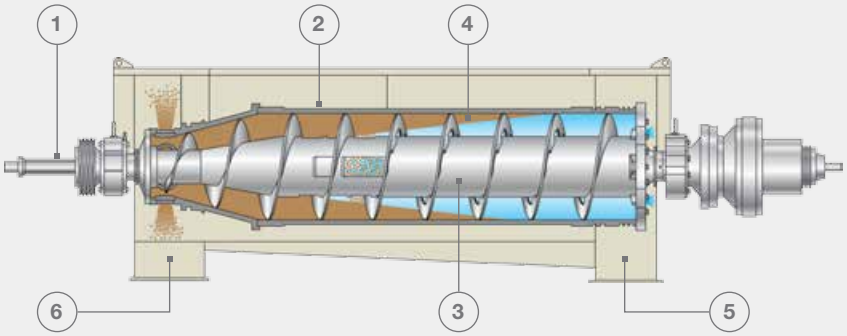
The clay-rich cake material resulting from centrifuging is deposited to form the foundation for future land reclamation.

Part of a suite of technologies

Centrifuges are only one of Syncrude's leading tailings technologies—their multi-pronged approach also includes Composite Tails and Water Capping.

innovate

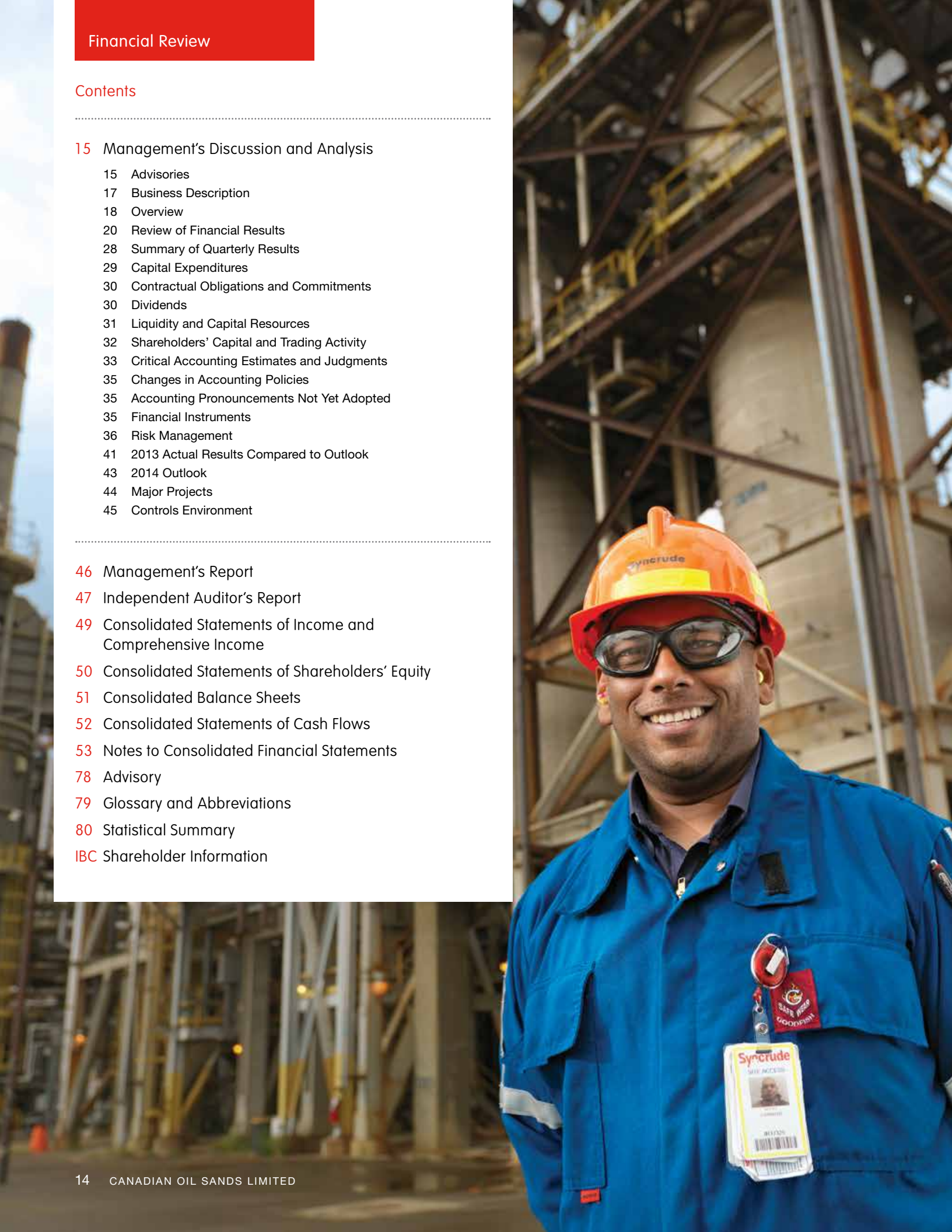
Centrifuge Technology



1. Product Feeding Pipe; 2. Bowl; 3. Scroll; 4. Separation; 5. Liquids Discharge Chute; 6. Solids Discharge Chute

How It Works: Similar to a clothes washer on the spin cycle, centrifuges remove water from the material called fluid fine tailings. With the addition of a polymer (the same kind that is used at a municipal water treatment plant) high-speed centrifuges spin-out the water from the mixture of clay and fine solids. What remains is a thick, clay-rich cake material. This cake is deposited for further drying and consolidation, making it strong enough to support reclamation activities.

Contents



Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") was prepared as of February 20, 2014 and should be read in conjunction with the audited consolidated financial statements and notes thereto of Canadian Oil Sands Limited (the "Corporation") for the years ended December 31, 2013 and December 31, 2012 and the Corporation's Annual Information Form ("AIF") dated February 20, 2014. Additional information on the Corporation, including its AIF, is available on SEDAR at **www.sedar.com** or on the Corporation's website at **www.cdnoilsands.com.** References to "Canadian Oil Sands", "COS", or "we" include the Corporation, its subsidiaries and partnerships. The financial results of Canadian Oil Sands have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") and are reported in Canadian dollars, unless stated otherwise.

Advisories

Forward-Looking Information

In the interest of providing the Corporation's shareholders and potential investors with information regarding the Corporation, including management's assessment of the Corporation's future production and cost estimates, plans and operations, certain statements throughout this MD&A 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 include, but are not limited to, statements with respect to: the expectations regarding refining demand for SCO; the expectations regarding where SCO will be consumed in the future; the expectations regarding pipeline apportionment and pipeline capacity; plans regarding crude oil and currency hedges; the expected benefits of the management services agreement with Imperial Oil; the expectations regarding the 2014 annual Syncrude forecasted production range of 95 million barrels to 110 million barrels and the single-point Syncrude production estimate of 105 million barrels (38.6 million barrels net to the Corporation); the timing of the Coker 8-2 turnaround; the intention to fund the Syncrude major projects primarily with cash flow from operations and existing cash balances; the establishment of future dividend levels with the intent of absorbing short-term market volatility over several quarters; the expected sales, operating expenses, purchased energy costs, development expenses, Crown royalties, capital expenditures and cash flow from operations for 2014; the anticipated amount of current taxes in 2014; expectations regarding the Corporation's cash levels for 2014; the expected price for crude oil and natural gas in 2014; the expected foreign exchange rates in 2014; the expected realized selling price, which includes the anticipated differential to West Texas Intermediate ("WTI") to be received in 2014 for the Corporation's product; the expectations regarding net debt; the anticipated impact of increases or decreases in oil prices, production, operating expenses, foreign exchange rates and natural gas prices on the Corporation's cash flow from operations; the belief that fluctuations in the Corporation's realized selling prices, U.S. to Canadian dollar exchange rates, planned and unplanned maintenance activities and bitumen values may impact the Corporation's financial results in the future; the expected amount of total major project costs, anticipated target in-service dates and estimated completion percentages for the Mildred Lake mine train replacements and the centrifuge plant at the Mildred Lake mine; the cost estimates for 2014 and 2015 major project spending; and 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.

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 January 30, 2014 and as subsequently amended or replaced from time to time, including without limitation, the assumptions as to production, operating expenses and oil prices; the successful and timely implementation of capital projects; Syncrude's major project spending plans; the ability to obtain regulatory and Syncrude joint venture owner approval; our ability to either generate sufficient cash flow from operations to meet our current and future obligations or obtain external sources of debt and equity capital; the continuation of assumed tax, royalty and regulatory regimes and the accuracy of the estimates of our reserves and resources volumes.*

*Some of the risks and other factors which could cause actual results or events to differ materially from current expectations expressed in the forward-looking statements contained in this MD&A include, but are not limited to: volatility of crude oil prices; volatility of the SCO to WTI price differential; skilled labour shortages and the productivity achieved from labour in the Fort McMurray area; the inability of Syncrude to obtain required consents, permits and approvals, including without limitation, the inability of Syncrude to obtain approval to release water from its operations; the impact of Syncrude being unable to meet the conditions of its approval for its tailings management plan under Directive 74; unsuccessful or untimely implementation of capital or maintenance projects; various events that could disrupt operations, including fires, equipment failures and severe weather; the impact that pipeline capacity and refinery demand have on prices for our product; the impacts of legislative or regulatory changes especially as such relate to royalties, taxation, tailings, water and the environment; the impact of technology on operations and processes and how new complex technology may not perform as expected; the supply and demand metrics for oil and natural gas; the unanimous joint venture owner approval for major expansions and changes in product types; the variances of stock market activities generally; normal risks associated with litigation, general economic, business and market conditions; currency and interest rate fluctuations and such other risks and uncertainties described in the Corporation's AIF dated February 20, 2014 and in the reports and filings made with securities regulatory authorities from time to time by the Corporation which are available on the Corporation's profile on SEDAR at **www.sedar.com** and on the Corporation's website at **www.cdnoilsands.com**.*

You are cautioned that the foregoing list of important factors is not exhaustive. Furthermore, the forward-looking statements contained in this MD&A are made as of February 20, 2014, and unless required by law, the Corporation does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

Additional GAAP Financial Measures

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

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

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

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

($ millions)		**2013**		2012
Cash flow from operations[1]	**$**	**1,349**	$	1,581
Change in non-cash working capital[1]		**233**		283
Cash from operating activities[1]	**$**	**1,582**	$	1,864

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

Net debt, total net capitalization, total capitalization, net debt-to-total net capitalization and long-term debt-to-total capitalization are used by the Corporation to analyze liquidity and manage capital, as discussed in the "Liquidity and Capital Resources" section of this MD&A and in Note 18 to the consolidated financial statements for the years ended December 31, 2013 and December 31, 2012.

Business Description

Canadian Oil Sands is the largest owner of the Syncrude Joint Venture ("Syncrude"), a major producer of high quality, low sulphur, light, synthetic crude oil ("SCO"). Canadian Oil Sands' only producing asset is a 36.74 per cent working interest in Syncrude, generating revenue from its share of production, and represents the only public opportunity for undiversified investment directly in 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 SCO. Syncrude is jointly controlled by seven owners. Each owner has an undivided interest in the assets of Syncrude, takes its production in kind, and funds its proportionate share of Syncrude's operating, development and capital costs on a daily basis. Canadian Oil Sands 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. Oversight of Syncrude Canada is provided by a Syncrude Management Committee and various management sub-committees as well as Syncrude Canada's Board of Directors and Board committees, all of which are staffed by representatives of the Syncrude owners. In particular, the Syncrude Management Committee oversees and approves significant Syncrude expenditures and long-term strategies.

Syncrude's leases are located in the Athabasca oil sands deposit. Syncrude's reserves and resources are all considered to be recoverable through surface mining, meaning that the layers of oil sands are found beneath a relatively shallow overburden layer. Based on evaluations performed in accordance with the COGE Handbook by our qualified independent petroleum reserve evaluators effective December 31, 2013, Canadian Oil Sands estimates Syncrude's proved plus probable reserves at 4.5 billion barrels (1.7 billion barrels net to the Corporation), best-estimate contingent resources at 5.1 billion barrels (1.9 billion barrels net to the Corporation) and best-estimate prospective resources at 1.6 billion barrels (0.6 billion barrels net to the Corporation) of SCO. Based on the current annual production outlook for 2014 of 105 million barrels, or 38.6 million barrels net to Canadian Oil Sands, Syncrude's estimated proved plus probable reserve life is approximately 43 years. More information regarding Canadian Oil Sands' reserves and resources can be found in the "Reserves Data and Other Information" section in our AIF dated February 20, 2014, which can be found at **www.sedar.com** or on our website at **www.cdnoilsands.com**.

Syncrude produces SCO by mining the oil sands, extracting the bitumen from the sands, upgrading the recovered bitumen into lighter oil fractions and combining those fractions into a single SCO product. Using proven open-pit mining technologies to access the oil sands deposits results in a recovery rate of 90 per cent or more of the bitumen in place. As a large, integrated facility, production volumes reflect the capacity of the facility and the reliability of Syncrude's operations. Reliability is a critical success factor for Syncrude because the operating costs in the short term are largely fixed. The aim is to maximize throughput and utilization of the various operating units in a safe and sustainable manner in order to increase production volumes and reduce per-barrel costs, thereby enhancing the economics. While regular maintenance of operating units is required, unplanned outages of units can occur, and these outages usually result in additional maintenance or

repair costs and reduced production volumes, which consequently impact revenues and operating expenses. Over the past six years, Syncrude's production has averaged about 285,000 barrels per day. Syncrude's operations are subject to a number of risks that are discussed in further detail in the "Risk Management" section of this MD&A.

Canadian Oil Sands' cash flow from operations and net income are dependent on the selling price received for SCO, sales volumes, operating and other expenses, including Crown royalties and income taxes. The dividends paid to Shareholders are likewise dependent on these factors, the amount and timing of capital expenditures and the level of net debt. The price we receive for our SCO, net of crude oil purchases and transportation expense, reflects the realized selling price at the Syncrude plant gate. Historically, our annual average selling price has correlated closely with the West Texas Intermediate ("WTI") benchmark oil price and has been impacted by movements in United States/Canadian ("U.S./Cdn") currency exchange rates. However, changes to supply and demand fundamentals create volatility in crude oil prices and impact the price differential of our SCO product relative to Canadian dollar WTI as well as WTI prices relative to other crude oil benchmarks. These price differentials can change quickly, reflecting changes in the short-term supply and demand in the market and the availability of pipelines and other delivery capacity for transporting crude oil. Canadian Oil Sands prefers to remain unhedged on crude oil prices; however, during periods of significant capital spending and financing requirements, the Corporation may hedge prices to reduce cash flow volatility.

Overview

Canadian Oil Sands generated cash flow from operations of $1,349 million, or $2.78 per Share, in 2013 on the strength of a higher-than-forecast realized selling price for its SCO, which more than offset the impact of lower-than-expected production at Syncrude.

Canadian Oil Sands exited 2013 with a strong balance sheet and is well positioned to execute the final year of its major project capital program. Syncrude completed the Aurora North Tailings Management and Aurora North Mine Train Relocation projects in 2013, ahead of schedule and about $250 million (gross to Syncrude) under budget. The Mildred Lake Mine Train Replacements, the largest of our capital projects, was about 80 per cent complete at the end of 2013 with an in-service target in the fourth quarter of 2014. The Centrifuge Tailings Management project was about 70 per cent complete at the end of 2013 and is on schedule to be in service in the first half of 2015.

Canadian Oil Sands realized an average selling price of approximately $100 per barrel for its SCO in 2013, reflecting average WTI crude oil prices of U.S. $98 per barrel, a $1 per barrel SCO discount to WTI, and a foreign exchange rate of $0.97 U.S./Cdn. Our fully-upgraded light crude oil avoided the deeper discounts and price volatility experienced by heavy oil products during periods of 2013.

Syncrude production in 2013 was 11 per cent lower than our original 2013 Outlook and totalled 97.5 million barrels, or 267,000 barrels per day. Volumes reflect delays completing the Coker 8-1, LC Finer and secondary upgrading unit turnarounds as well as unplanned outages in extraction units. Canadian Oil Sands' 2013 sales volumes totalled 35.8 million barrels, or 98,000 barrels per day.

Cash flow from operations in 2013 also reflect approximately $300 million of current taxes, the first significant current taxes in Canadian Oil Sands' history, as tax pools that sheltered virtually all of COS' income in 2011 and 2012, following the conversion from a trust to a corporation at the end of 2010, were not sufficient to shelter 2013 income.

Operating expenses in 2013 of $1,494 million were in line with our forecast and were similar to 2012 and 2011 expenses. The 2013 operating expenses reflect lower-than-forecast mining volumes and natural gas prices largely offset by higher-than-expected maintenance costs associated with the extended turnarounds and the unplanned outages in extraction units. Per-barrel operating expenses of $41.75 were higher than forecast due to lower sales volumes.

Net debt increased, as expected, in 2013 to $796 million as cash balances were used to fund capital expenditures and dividend payments in excess of cash flow from operations. In 2014, we expect to continue spending existing cash balances to fund our major projects, settle accounts payable of approximately $500 million for taxes and Crown royalties and pay dividends. Based on the assumptions in our 2014 Outlook, net debt is expected to rise to a level within our targeted range of $1 billion to $2 billion by the end of 2014, coincident with the expected substantial completion of our major projects.

During 2013, the Corporation paid dividends to Shareholders totalling $678 million, or $1.40 per Share.

In 2014, we are estimating annual Syncrude production of 95 to 110 million barrels with a single-point production estimate of 105 million barrels. The production estimate represents an eight per cent increase over 2013 levels and reflects a planned turnaround of Coker 8-2 in the second quarter and the successful start-up of the new Mildred Lake mine trains.

We are also forecasting operating expenses in 2014 of $1,600 million, or $41.48 per barrel, and capital expenditures of $1,097 million, including an estimated $653 million of spending on the two remaining major projects in progress.

More information on our outlook for 2014 is provided in the “2014 Outlook” section of this MD&A.

Review of Financial Results

Canadian Oil Sands' unaudited fourth quarter 2013 results were discussed and analyzed in our MD&A released on January 30, 2014 and filed with the Corporation's January 30, 2014 press release, which is available on our website at ***www.cdnoilsands.com*** *or at* ***www.sedar.com****. The 2013 results presented in this MD&A dated February 20, 2014 are unchanged from the MD&A dated January 30, 2014.*

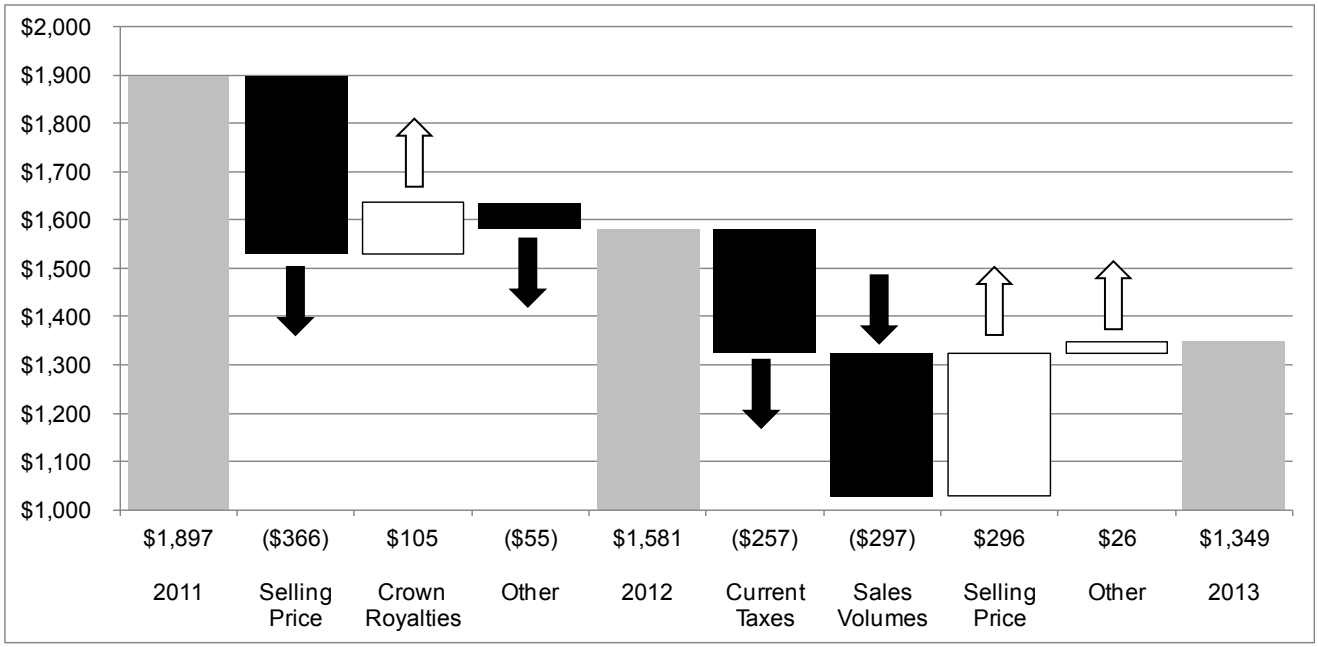
Highlights

($ millions, except per Share and volume amounts)		**2013**		2012[6]		2011[6]
Cash flow from operations[1]	**$**	**1,349**	$	1,581	$	1,897
Per Share[1]	**$**	**2.78**	$	3.26	$	3.91
Net income	**$**	**834**	$	973	$	1,144
Per Share, Basic and Diluted	**$**	**1.72**	$	2.01	$	2.36
Sales, after crude oil purchases and transportation expense	**$**	**3,565**	$	3,566	$	3,934
Sales volumes[2]						
Total (mmbbls)		**35.8**		38.7		38.7
Daily average (bbls)		**98,037**		105,680		106,015
Realized SCO selling price ($/bbl)[3]	**$**	**99.55**	$	91.90	$	101.20
West Texas Intermediate ("WTI") (average $US/bbl)	**$**	**98.05**	$	94.15	$	95.11
SCO premium (discount) to WTI (weighted-average $/bbl)	**$**	**(1.10)**	$	(2.42)	$	7.32
Operating expenses	**$**	**1,494**	$	1,505	$	1,501
Per barrel ($/bbl)[3]	**$**	**41.75**	$	38.91	$	38.80
Capital expenditures	**$**	**1,342**	$	1,086	$	643
Dividends	**$**	**678**	$	654	$	533
Per Share	**$**	**1.40**	$	1.35	$	1.10
Total assets	**$**	**10,190**	$	10,171	$	8,620
Net debt[4]	**$**	**796**	$	241	$	414
Total other long-term liabilities[5]	**$**	**1,194**	$	1,509	$	1,488

[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.*
[3] *These per barrel measures have been derived by dividing the relevant item by sales volume in the period.*
[4] *Long-term debt less cash and cash equivalents. Net debt is an Additional GAAP financial measure and is defined in the "Liquidity and Capital Resources" section of this MD&A.*
[5] *Includes non-current portions of employee future benefits, Crown royalties and the asset retirement obligation.*
[6] *Net income and operating expenses in 2012 have been adjusted to reflect the amendments to International Accounting Standard ("IAS") 19, Employee Benefits. However, 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 and in Note 4 to the consolidated financial statements for the years ended December 31, 2013 and December 31, 2012.*

Cash Flow from Operations

($ millions)



The decrease in cash flow from operations to $1,349 million, or $2.78 per Share, in 2013 from $1,581 million, or $3.26 per Share, in 2012 reflects higher current taxes, with lower sales volumes offsetting a higher realized selling price in 2013.

The decrease in cash flow from operations to $1,581 million, or $3.26 per Share, in 2012 from $1,897 million, or $3.91 per Share, in 2011, reflects a lower realized selling price, partially offset by lower Crown royalties in 2012.

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

Net Income

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

($ per barrel)[1]	**2013**	2012	2011
Sales after crude oil purchases and transportation expense	**$ 99.63**	$ 92.20	$ 101.66
Operating expense[2]	**(41.75)**	(38.91)	(38.80)
Crown royalties	**(4.85)**	(5.21)	(7.93)
	$ 53.03	$ 48.08	$ 54.93
Development expense	**(3.72)**	(2.62)	(2.93)
Administration and insurance expenses	**(1.16)**	(0.94)	(0.85)
Depreciation and depletion expense	**(13.36)**	(10.41)	(9.84)
Net finance expense[2]	**(1.21)**	(1.45)	(1.19)
Foreign exchange gain (loss)	**(2.46)**	0.65	(0.57)
Tax expense	**(7.79)**	(8.15)	(10.00)
	(29.70)	(22.92)	(25.38)
Net income per barrel	**$ 23.33**	$ 25.16	$ 29.55
Sales volumes (mmbbls)[3]	**35.8**	38.7	38.7

[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] *Operating and net finance expenses in 2012 have been adjusted to reflect the amendments to IAS 19, Employee Benefits. Operating and net finance expenses in 2011 have not been adjusted.*
[3] *Sales volumes, net of purchased crude oil volumes.*

Net income decreased to $834 million, or $1.72 per Share, in 2013 from $973 million, or $2.01 per Share, in 2012. Lower sales volumes were largely offset by a higher realized selling price in 2013. However, depreciation and depletion expense increased by $75 million in 2013 and the Corporation recognized an $88 million foreign exchange loss as opposed to a $25 million foreign exchange gain in 2012.

Net income decreased to $973 million, or $2.01 per Share, in 2012 from $1,144 million, or $2.36 per Share, in 2011, reflecting the same factors impacting cash flow from operations and a $25 million foreign exchange gain in 2012. The Corporation recorded a $22 million foreign exchange loss in 2011.

Net income on a per barrel basis is also affected by the Corporation's sales volumes, which were lower in 2013 than in 2012 and 2011.

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

Sales Net of Crude Oil Purchases and Transportation Expense

($ millions, except where otherwise noted)	**2013**	**2012**	2011	Changes 2013 vs 2012	Changes 2012 vs 2011
Sales[1]	**$ 4,208**	$ 3,905	$ 4,182	$ 303	$ (277)
Crude oil purchases	**(591)**	(295)	(221)	(296)	(74)
Transportation expense	**(52)**	(44)	(27)	(8)	(17)
	$ 3,565	$ 3,566	$ 3,934	$ (1)	$ (368)
Sales volumes[2]					
Total (mmbbls)	**35.8**	38.7	38.7	(2.9)	–
Daily average (bbls)	**98,037**	105,680	106,015	(7,643)	(335)
Realized SCO selling price[3] (average $Cdn/bbl)	**$ 99.55**	$ 91.90	$ 101.20	$ 7.65	$ (9.30)
West Texas Intermediate ("WTI") (average $US/bbl)	**$ 98.05**	$ 94.15	$ 95.11	$ 3.90	$ (0.96)
SCO premium (discount) to WTI (weighted-average $Cdn/bbl)	**$ (1.10)**	$ (2.42)	$ 7.32	$ 1.32	$ (9.84)
Average foreign exchange rate ($US/$Cdn)	**$ 0.97**	$ 1.00	$ 1.01	$ (0.03)	$ (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.*

Sales, net of crude oil purchases and transportation expense, were virtually unchanged from 2012 to 2013 as a higher realized selling price in 2013 offset lower sales volumes.

- The realized selling price in 2013 increased $7.65 per barrel relative to 2012, reflecting a U.S. $3.90 per barrel increase in WTI oil prices, a $1.32 per barrel improvement in the SCO differential to WTI, and a weaker Canadian dollar.
- Sales volumes in 2013 averaged 98,000 barrels per day, down from 105,700 barrels per day in 2012, reflecting delays completing the Coker 8-1, LC Finer and secondary upgrading unit turnarounds in 2013. Sales volumes in both 2013 and 2012 reflect unplanned outages in extraction units.

The $368 million decrease in sales, net of crude oil purchases and transportation expense, from 2011 to 2012 reflects a lower realized selling price in 2012.

- The realized selling price in 2012 decreased $9.30 per barrel relative to 2011 primarily due to a $9.84 deterioration in the SCO differential to WTI.

Both WTI and the SCO differential to WTI reflect supply/demand fundamentals for inland North American light crude oil. Increasing North American production of crude oil, and refinery modifications that enable processing of heavier crude oils, can push light crude sales, including some of our SCO, to more distant refineries, exposing COS' product to

supply/demand factors in different markets and increasing transportation costs. A number of pipelines in both Canada and the United States are at, or near, capacity and any pipeline apportionments restrict the ability of SCO and other crude oil to reach preferred markets. However, rail shipments of crude oil to refineries have risen significantly, alleviating some of the pipeline capacity constraints.

We expect volatility in the SCO differential to WTI 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 increased over the three year period from 2011 to 2013, reflecting increasing purchased volumes and variances in crude oil prices, which were higher in 2013 and 2011 than in 2012.

Operating Expenses

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

	2013		2012		2011	
	$ millions	**$ per bbl**	$ millions	$ per bbl	$ millions	$ per bbl
Production and maintenance[1]	**$ 1,217**	**$ 34.01**	$ 1,242	$ 32.12	$ 1,163	$ 30.08
Natural gas and diesel purchases[2]	**144**	**4.02**	125	3.22	194	5.01
Pension and incentive compensation	**98**	**2.74**	97	2.52	100	2.58
Other[3]	**35**	**0.98**	41	1.05	44	1.13
Total operating expenses	**$ 1,494**	**$ 41.75**	$ 1,505	$ 38.91	$ 1,501	$ 38.80

[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.*

Total-dollar operating expenses were similar over the three-year period from 2011 to 2013.

- 2013 operating expenses reflect lower production expenses, primarily due to lower mining volumes, offset by maintenance expenses associated with the extended turnarounds, the Aurora North Mine Train Relocations and unplanned outages in extraction units.
- 2012 operating expenses reflect comparatively low natural gas prices offset by higher maintenance expenses due to unplanned outages in upgrading and extraction units.
- 2011 operating expenses reflect comparatively low maintenance costs offset by higher natural gas prices and higher purchased diesel volumes.

Operating expenses on a per barrel basis are affected by the Corporation's sales volumes, which were lower in 2013 than in 2012 and 2011.

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.

	2013		2012[3]		2011	
($ per barrel)	**Bitumen**	**SCO**	Bitumen	SCO	Bitumen	SCO
Bitumen production	**$ 26.74**	**$ 32.32**	$ 25.54	$ 29.54	$ 24.43	$ 29.07
Internal fuel allocation[1]	**2.69**	**3.25**	2.15	2.48	2.40	2.85
Total bitumen production expenses	**$ 29.43**	**$ 35.57**	$ 27.69	$ 32.02	$ 26.83	$ 31.92
Upgrading[2]		**$ 9.43**		$ 9.37		$ 9.73
Less: internal fuel allocation[1]		**(3.25)**		(2.48)		(2.85)
Total upgrading expenses		**$ 6.18**		$ 6.89		$ 6.88
Total operating expenses		**$ 41.75**		$ 38.91		$ 38.80
(thousands of barrels per day)						
Syncrude production volumes	**323**	**267**	331	287	343	288
Canadian Oil Sands sales volumes		**98**		106		106

[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 $3.09 per GJ in 2013, $2.34 per GJ in 2012 and $3.48 per GJ in 2011. Diesel prices averaged $0.91 per litre in 2013, $0.90 per litre 2012 and $0.94 per litre in 2011.*

[2] *Upgrading expenses include the production and maintenance expenses associated with processing and upgrading bitumen to SCO.*

[3] *Certain 2012 comparative amounts have been restated to conform to the current year presentation.*

Crown Royalties

Crown royalties decreased to $174 million in 2013 from $202 million in 2012 and $307 million in 2011, reflecting:

- higher deductible capital expenditures in 2013 and 2012 than in 2011, reflecting spending on capital projects to replace or relocate Syncrude mine trains and to support tailings management plans; and
- lower bitumen volumes in 2013 than in 2012 and 2011.

From 2009 through 2015, Syncrude's Crown royalties are determined pursuant to the Syncrude Royalty Amending Agreement ("Syncrude RAA") and the Syncrude Bitumen Royalty Option Agreement.

Under the Syncrude RAA, the Syncrude owners pay the greater of 25 per cent of net revenues, or one per cent of gross revenues, plus a transition royalty of up to $975 million ($358 million net to the Corporation) for the period January 1, 2010 to December 31, 2015. The transition royalty of $975 million is reduced proportionally if bitumen production is less than 345,000 barrels per day over the period. The $975 million ($358 million net to the Corporation) is scheduled over six annual installments as follows:

($ millions)	2010	2011	2012	2013	2014	2015	Total
Syncrude	$ 75	$ 75	$ 100	$ 150	$ 225	$ 350	$ 975
Canadian Oil Sands' share	$ 27	$ 27	$ 37	$ 55	$ 83	$ 129	$ 358

Under the Syncrude Bitumen Royalty Option Agreement, costs related to capital expenditures that were deducted in computing Crown royalties on SCO prior to 2009, and are no longer associated with the royalty base, are recaptured by the Crown. These recapture amounts vary based on Government of Canada long-term bond rates and result in approximately $25 million of additional Crown royalties per year, net to the Corporation, over a 25-year period.

The Syncrude RAA 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.

The Syncrude owners and the Alberta government had been disputing the basis for determining the adjustments to reflect the quality and location differences and "floor price". In December 2013, the parties resolved the dispute and agreed upon the methodology for calculating the quality and location differences and "floor price" for the term of the Syncrude RAA (2009 to 2015).

Development Expenses

Development expenses totaled $133 million in 2013, $101 million in 2012 and $113 million in 2011. 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 $478 million in 2013 from $403 million in 2012 and $381 million in 2011 reflecting:

- a $35 million write-off of the Arctic natural gas assets' carrying value in 2013;
- approximately $20 million in new depreciation charges in 2013 related to the Syncrude Emissions Reduction (SER) project; and
- changes made in 2012 and 2013 to the estimated lives of certain assets.

Net Finance Expense

($ millions)	**2013**	2012[1]	2011[1]
Interest costs on long-term debt	**$ 123**	$ 117	$ 91
Less capitalized interest on long-term debt	**(107)**	(92)	(57)
Interest expense on long-term debt	**$ 16**	$ 25	$ 34
Interest expense on employee future benefits	**16**	17	-
Accretion of asset retirement obligation	**26**	26	16
Interest income	**(14)**	(12)	(4)
Net finance expense	**$ 44**	$ 56	$ 46

[1] *Net finance expense in 2012 has been adjusted to reflect the amendments to IAS 19, Employee Benefits. Net finance expense in 2011 has not been adjusted.*

Interest costs on the Corporation's U.S. dollar-denominated long-term debt increased over the three years from 2011 to 2013 reflecting:

- higher average outstanding debt levels in 2013 and 2012, relative to 2011; and
- a decline in the value of the Canadian dollar over the three-year period.

Conversely, interest expense on long-term debt decreased over the three-year period as a growing portion of interest costs were capitalized as spending on the major projects progressed.

The higher asset retirement obligation accretion in 2013 and 2012, relative to 2011, reflects an increase in the estimated asset retirement obligation at December 31, 2011.

The higher interest income in 2013 and 2012, relative to 2011, reflects comparatively higher average cash balances on hand in 2012 and 2013.

Foreign Exchange (Gain) Loss

($ millions)		**2013**		2012		2011
Foreign exchange (gain) loss – long-term debt	**$**	**115**	$	(28)	$	25
Foreign exchange (gain) loss – other		**(27)**		3		(3)
Total foreign exchange (gain) loss	**$**	**88**	$	(25)	$	22

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

The Canadian dollar weakened in 2013 (from U.S. $1.01 at December 31, 2012 to U.S. $0.94 at December 31, 2013) and 2011 (from U.S. $1.01 at December 31, 2010 to U.S. $0.98 at December 31, 2011) and strengthened in 2012 (from U.S. $0.98 at December 31, 2011 to U.S. $1.01 at December 31, 2012).

Tax Expense

($ millions)		**2013**		2012		2011
Current tax expense	**$**	**297**	$	40	$	–
Deferred tax expense (recovery)		**(18)**		275		387
Total tax expense	**$**	**279**	$	315	$	387

Total tax expense decreased over the three-year period because earnings before tax decreased over the period.

Current taxes were higher in 2013 than in 2012 and 2011 because:

- additional tax pools were available in 2011 and 2012, relative to 2013, and these sheltered all of the 2011 income and the majority of 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

($ millions)		**2013**		2012
Asset retirement obligation, beginning of year	**$**	**1,102**	$	1,037
(Increase) decrease in risk-free interest rate		**(217)**		68
Reclamation expenditures		**(42)**		(54)
Increase in estimated reclamation and closure expenditures		**27**		25
Accretion expense		**26**		26
Asset retirement obligation, end of year	**$**	**896**	$	1,102
Less current portion		**(28)**		(44)
Non-current portion	**$**	**868**	$	1,058

Canadian Oil Sands' asset retirement obligation decreased in 2013 primarily due to a 100 basis point increase in the risk-free interest rate used to discount future reclamation and closure expenditures (from 2.25 per cent at December 31, 2012 to 3.25 per cent at December 31, 2013).

In 2012, Canadian Oil Sands' asset retirement obligation increased primarily due to a 25 basis point decrease in the risk-free interest rate (from 2.50 per cent at December 31, 2011 to 2.25 per cent at December 31, 2012).

The annual reviews of estimated future reclamation and closure expenditures resulted in $27 million and $25 million increases in the asset retirement obligation in 2013 and 2012, respectively.

Pension and Other Post-Employment Benefit Plans

($ millions)		**2013**		2012[2]
Accrued benefit liability, beginning of year	**$**	**438**	$	465
Current service cost		**45**		43
Interest expense		**16**		17
Contributions		**(109)**		(104)
Re-measurement (gains) losses:				
(Increase) decrease in discount rate		**(91)**		45
Actual return on plan assets in excess of estimated return		**(46)**		(24)
Other[1]		**55**		(4)
Accrued benefit liability, end of year	**$**	**308**	$	438

[1] *The other re-measurement loss in 2013 reflects an increase in the estimated average lifespan of the plans' beneficiaries as a result of new actuarial standards.*

[2] *Interest expense in 2012 has been adjusted to reflect the amendments to IAS 19, Employee Benefits.*

The Corporation's obligation for Syncrude Canada's pension and other post-employment benefits in excess of the fair value of the assets held in the benefit plans (the "accrued benefit liability") decreased $130 million in 2013, reflecting a 50 basis point increase in the interest rate used to discount the accrued benefit liability, higher-than-estimated returns on plan assets and contributions to the plans in excess of the current period expenses. These factors were partially offset by the impact of an increase in the estimated average lifespan of the plans' beneficiaries as a result of new actuarial standards.

The $27 million decrease in the accrued benefit liability in 2012 reflects contributions to the plans in excess of current period expenses and higher-than-estimated returns on plan assets, partially offset by a 25 basis point decrease in the discount rate.

Summary of Quarterly Results

	2013				2012[6]			
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Sales[1] ($ millions)	**$ 945**	**$ 871**	**$ 921**	**$ 828**	$ 929	$ 941	$ 740	$ 956
Net income ($ millions)	**$ 192**	**$ 246**	**$ 219**	**$ 177**	$ 218	$ 336	$ 101	$ 318
Per Share, Basic & Diluted	**$ 0.40**	**$ 0.51**	**$ 0.45**	**$ 0.37**	$ 0.45	$ 0.69	$ 0.21	$ 0.66
Cash flow from operations[2] ($ millions)	**$ 392**	**$ 339**	**$ 343**	**$ 275**	$ 418	$ 470	$ 245	$ 454
Per Share[2]	**$ 0.81**	**$ 0.70**	**$ 0.71**	**$ 0.57**	$ 0.86	$ 0.97	$ 0.51	$ 0.94
Dividends ($ millions)	**$ 169**	**$ 170**	**$ 169**	**$ 170**	$ 169	$ 170	$ 170	$ 145
Per Share	**$ 0.35**	**$ 0.35**	**$ 0.35**	**$ 0.35**	$ 0.35	$ 0.35	$ 0.35	$ 0.30
Daily average sales volumes[3] (bbls)	**112,092**	**84,250**	**100,094**	**95,683**	111,669	113,331	89,460	108,108
Realized SCO selling price ($/bbl)	**$ 91.47**	**$ 112.55**	**$ 100.90**	**$ 96.11**	$ 89.99	$ 89.89	$ 90.59	$ 97.07
WTI[4] (average $US/bbl)	**$ 97.61**	**$ 105.81**	**$ 94.17**	**$ 94.36**	$ 88.23	$ 92.20	$ 93.35	$ 103.03
SCO premium (discount) to WTI (weighted-average $/bbl)	**$ (10.84)**	**$ 2.63**	**$ 4.79**	**$ 1.00**	$ 2.52	$ (2.00)	$ (5.20)	$ (5.80)
Operating expenses[5] ($/bbl)	**$ 37.60**	**$ 46.15**	**$ 43.23**	**$ 41.20**	$ 38.76	$ 36.07	$ 50.25	$ 32.68
Purchased natural gas price ($/GJ)	**$ 3.28**	**$ 2.59**	**$ 3.41**	**$ 2.95**	$ 3.02	$ 2.23	$ 1.79	$ 2.23
Foreign exchange rates ($US/$Cdn)								
Average	**$ 0.95**	**$ 0.96**	**$ 0.98**	**$ 0.99**	$ 1.01	$ 1.00	$ 0.99	$ 1.00
Quarter-end	**$ 0.94**	**$ 0.97**	**$ 0.95**	**$ 0.98**	$ 1.01	$ 1.02	$ 0.98	$ 1.00

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 IAS 19, Employee Benefits.*

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

- fluctuations in realized selling prices have affected the Corporation's sales and Crown royalties. Monthly average WTI prices ranged from U.S. $82 per barrel to U.S. $107 per barrel, and the monthly average differentials between our realized selling price and Canadian dollar WTI prices ranged from a $10 per barrel premium to a $16 per barrel discount;
- U.S. to Canadian dollar exchange rate fluctuations resulted in foreign exchange gains and losses on the revaluation of U.S. dollar-denominated debt and impacted realized selling prices;
- planned and unplanned maintenance activities reduced quarterly production volumes and revenues and increased operating expenses;
- bitumen values used to calculate Crown royalties from 2009 to 2013 changed as new information became available; and
- increases in current taxes in 2013 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.

Increased spending on capital projects to replace or relocate Syncrude mining trains and to support tailings management plans has reduced Crown royalties over the past eight quarters. These projects are all expected to be complete or substantially complete by the end of 2014. As such, capital deductions for Crown royalties are expected to decline and, all else being equal, Crown royalties are expected to increase.

While the supply/demand balance for crude oil affects selling prices, the impact of this relationship has not displayed significant seasonality. Syncrude production levels may likewise not display seasonal patterns or trends. While maintenance and turnaround activities are typically scheduled in the spring and fall, the timing of unit outages cannot always 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. Given the relatively fixed nature of operating costs, all turnaround and maintenance activities impact per-barrel operating expenses because sales volumes are lower in the periods when this work is occurring.

Capital Expenditures

($ millions)	**2013**	2012[1]	2011
Major Projects			
Mildred Lake Mine Train Replacement Reconstruct crushers, surge facilities, and slurry prep facilities to support tailings storage requirements	**$ 457**	$ 362	$ 139
Aurora North Mine Train Relocation Relocate crushers, surge facilities, and slurry prep facilities to support tailings storage requirements	**149**	98	27
Aurora North Tailings Management Construct a composite tails (CT) plant at the Aurora North mine to process tailings	**77**	123	40
Centrifuge Tailings Management Construct a centrifuge plant at the Mildred Lake mine to process tailings	**229**	69	39
Syncrude Emissions Reduction (SER) Retrofit technology into Syncrude's original two cokers to reduce total sulphur dioxide and other emissions	**-**	-	110
Capital expenditures on major projects	**$ 912**	$ 652	$ 355
Regular maintenance			
Capitalized turnaround costs	**$ 54**	$ 76	$ 44
Other	**269**	266	187
Capital expenditures on regular maintenance	**$ 323**	$ 342	$ 231
Capitalized interest	**$ 107**	$ 92	$ 57
Total capital expenditures	**$ 1,342**	$ 1,086	$ 643

[1] *Certain 2012 amounts have been restated to conform to the current year's presentation.*

Total capital expenditures increased to $1,342 million in 2013 from $1,086 million in 2012 and $643 million in 2011, and capitalized interest costs increased from 2011 to 2013, as the major projects progressed. More information on these major projects is provided in the "Major Projects" section of this MD&A.

Other regular maintenance capital expenditures were higher in 2013 and 2012 than in 2011, reflecting spending on projects to relocate some of Syncrude's tailings facilities.

Capitalized turnaround costs were higher in 2012, reflecting an extended turnaround on Coker 8-3.

Contractual Obligations and Commitments

The following table outlines the significant contractual obligations and commitments that were assumed as part of the normal course of operations and were known as of February 20, 2014. These obligations and commitments represent future cash payments that the Corporation is required to make under existing contractual agreements that it has entered into either directly, or as a 36.74 per cent owner in Syncrude. The principal payments and accrued interest due on long-term debt, the asset retirement obligation and the pension plan solvency deficiency payments are recognized as liabilities in the Corporation's consolidated financial statements. The other contractual obligations and commitments are not recognized as liabilities.

	Cash Outflow By Period				
($ millions)	Total	2014	2015 to 2016	2017 to 2018	After 2018
Pipeline and storage[1]	$ 3,069	$ 53	$ 169	$ 304	$ 2,543
Long-term debt[2]	2,788	107	214	214	2,253
Asset retirement obligation[3]	2,160	28	67	67	1,998
Pension plan solvency deficiency payments[4]	279	79	110	33	57
Other[5]	267	102	83	31	51
Natural gas and diesel purchases[6]	105	105	–	–	–
Capital expenditures[7]	74	74	–	–	–
	$ 8,742	$ 548	$ 643	$ 649	$ 6,902

1 *Reflects Canadian Oil Sands' take-or-pay commitments for the transportation and storage of crude oil, primarily on proposed pipelines.*
2 *Reflects principal and interest payments on long-term debt. This differs from the carrying value of long-term debt, which excludes interest payments.*
3 *Reflects Canadian Oil Sands' 36.74 per cent share of the undiscounted estimated future expenditures required to settle Syncrude's obligation to reclaim and close each of its mine sites and decommission its utilities plants, bitumen extraction plants, and upgrading complex.*
4 *Canadian Oil Sands is responsible for funding its 36.74 per cent share of Syncrude Canada's registered pension plan solvency deficiency.*
5 *These obligations include, but are not limited to, Canadian Oil Sands' 36.74 per cent share of Syncrude Canada's non-cancellable annual fixed fees under a management services agreement with Imperial Oil Resources, amounts due under Syncrude Canada's employee retention program, and Synrude's commitment to purchase tires.*
6 *Reflects Canadian Oil Sands' 36.74 per cent share of Syncrude's commitments for natural gas and diesel purchases at floating market prices.*
7 *Comprised of Canadian Oil Sands' 36.74 per cent share of Syncrude's funding commitments primarily related to the Mildred Lake Mine Train Replacement and Centrifuge Tailings Management projects.*

Canadian Oil Sands' pipeline and storage commitments have increased from approximately $1.2 billion at December 31, 2011 and $2.5 billion at December 31, 2012 to $3.1 billion at December 31, 2013 reflecting new take-or-pay contracts on a portfolio of pipelines to secure future market access for the Corporation's products and enhance marketing flexibility. These commitments are primarily on proposed pipelines still subject to regulatory approval.

Dividends

On January 30, 2014, the Corporation declared a quarterly dividend of $0.35 per Share for a total dividend of approximately $170 million. The dividend will be paid on February 28, 2014 to shareholders of record on February 21, 2014. The Corporation paid dividends to shareholders totalling $678 million, or $1.40 per Share, in 2013.

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, the level of net debt and the Corporation's capacity to finance operating and investing obligations. Dividend amounts are established with the intent of absorbing short-term market volatility over several quarters and recognize our intention to fund the current major projects primarily with cash flow from operations and existing cash balances, while maintaining a strong balance sheet to absorb exposure to potential oil price declines, capital cost increases or major operational upsets.

Liquidity and Capital Resources

As at *($ millions, except % amounts)*	**December 31 2013**	December 31 2012	December 31 2011
Long-term debt[1,2]	**$ 1,602**	$ 1,794	$ 1,132
Cash and cash equivalents[1]	**(806)**	(1,553)	(718)
Net debt[3,4]	**$ 796**	$ 241	$ 414
Shareholders' equity[1]	**$ 4,732**	$ 4,515	$ 4,210
Total net capitalization[3,5]	**$ 5,528**	$ 4,756	$ 4,624
Total capitalization[3,6]	**$ 6,334**	$ 6,309	$ 5,342
Net debt-to-total net capitalization[3,7] (%)	**14**	5	9
Long-term debt-to-total capitalization[3,8] (%)	**25**	28	21

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

Net debt, which is comprised of current and non-current portions of long-term debt less cash and cash equivalents, increased to $796 million at December 31, 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 2013. In addition, a weakening Canadian dollar from December 31, 2012 to December 31, 2013 increased the Canadian dollar equivalent carrying value of Canadian Oil Sands' outstanding long-term debt, all of which is denominated in U.S. dollars, by $115 million. As a result, net debt-to-total net capitalization increased to 14 per cent at December 31, 2013 from five per cent at December 31, 2012.

In August, 2013, Canadian Oil Sands repaid U.S. $300 million of Senior Notes upon maturity, resulting in long-term debt-to-total capitalization of 25 per cent at December 31, 2013 compared with 28 per cent at December 31, 2012.

In 2014, we expect to continue spending existing cash balances to fund our major projects, settle accounts payable of approximately $500 million for taxes and Crown royalties and pay dividends. Based on the assumptions in our "2014 Outlook", net debt is expected to rise to a level within our targeted range of $1 billion to $2 billion by the end of 2014, coincident with the expected substantial completion of our major projects.

Net debt decreased in 2012 to $241 million at December 31, 2012 from $414 million at December 31, 2011. As a result, net debt-to-total net capitalization fell to five per cent at December 31, 2012 from nine per cent at December 31, 2011. While $1,581 million of cash flow from operations in 2012 fell short of capital expenditures and dividend payments of $1,086 million and $654 million, respectively, a reduction in non-cash working capital more than offset this difference. In addition, a strengthening Canadian dollar from December 31, 2011 to December 31, 2012 decreased the Canadian dollar equivalent carrying value of Canadian Oil Sands' outstanding long-term debt by $28 million.

In March 2012, Canadian Oil Sands issued U.S. $400 million of 4.5 per cent unsecured Senior Notes due April 1, 2022 and U.S. $300 million of 6.0 per cent unsecured Senior Notes due April 1, 2042, resulting in long-term debt-to-total capitalization of 28 per cent at December 31, 2012 compared with 21 per cent at December 31, 2011.

Shareholders' equity increased to $4,732 million at December 31, 2013 from $4,515 million at December 31, 2012 and $4,210 million at December 31, 2011, as net income exceeded dividends in 2013 and 2012.

In June 2013, Canadian Oil Sands extended the terms of its $1,500 million operating credit facility to June 1, 2017 and its $40 million extendible revolving term credit facility to June 30, 2015. No amounts were drawn against these facilities at December 31, 2013, December 31, 2012 or December 31, 2011.

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. Given the long-term debt-to-total capitalization of 25 per cent at December 31, 2013, a significant increase in debt or decrease in equity would be required to negatively impact the Corporation's financial flexibility.

Shareholders' Capital and Trading Activity

Canadian Oil Sands issues options, performance units ("PSUs"), and restricted share units ("RSUs") under its long-term incentive plans for employees, and deferred share units ("DSUs") as a component of non-executive directors' compensation.

Options are share-based compensation awards which provide the holder with the right to purchase a Share at an exercise price determined at the date of grant. For options granted prior to 2011, exercise prices are reduced by dividends over a threshold amount. Subject to certain exemptions relating to retirement, death or termination, the options vest by one-third following the date of grant in each of the first three years and expire seven years after the date of grant. At December 31, 2013, there were 2,975,896 options outstanding with a weighted-average exercise price of $24.89 per option. Thus far in 2014, 138,437 options have expired and 1,092,055 options were granted.

PSUs are share-based compensation awards with a settlement value based on the Corporation's Share price at the end of a three-year vesting period, dividends paid by the Corporation during the vesting period and the total Shareholder return generated by the Corporation relative to a comparator group, comprised of other industry peers, over the vesting period. PSUs are settled in cash, in Shares purchased in the secondary market, or in Shares issued from treasury. At December 31, 2013, there were 282,638 PSUs outstanding with an accrued value of approximately $3.6 million. Thus far in 2014, 74,329 PSUs have matured and 105,091 PSUs were granted.

RSUs are share-based compensation awards with a settlement value based on the Corporation's Share price at the end of a three-year vesting period and dividends paid by the Corporation during that period. RSUs are settled in cash, in Shares purchased in the secondary market or in Shares issued from treasury. At December 31, 2013, there were 30,640 RSUs outstanding with an accrued value of approximately $0.4 million. Thus far in 2014, 7,121 RSUs have matured and 16,270 RSUs were granted.

DSUs are share-based compensation awards with a settlement value based on the Corporation's Share price on the settlement date and dividends paid by the Corporation while the DSUs are outstanding. DSUs vest immediately upon grant and settle when a director's service ceases. DSUs are awarded and settled in cash, in Shares purchased in the secondary market or in Shares issued from treasury. At December 31, 2013 and February 20, 2014, there were 91,194 DSUs outstanding with an accrued value of approximately $1.8 million.

The share-based compensation awards outstanding at February 20, 2014 represent less than one per cent of total Shares outstanding on a Share-equivalent basis.

More detail on the Corporation's options, PSUs, RSUs and DSUs can be found in the Corporation's Management Proxy Circular dated March 18, 2013, which is available on our website at **www.cdnoilsands.com** or at **www.sedar.com**.

The Corporation's shares trade on the Toronto Stock Exchange under the symbol COS. On December 31, 2013, the Corporation had a market capitalization of approximately $9.7 billion with 484.6 million shares outstanding and a closing price of $19.98 per Share. A table summarizing the Shares issued in 2013 is included in Note 14 to the consolidated financial statements. The following table summarizes the trading activity for 2013:

	Total 2013	Fourth Quarter 2013	Third Quarter 2013	Second Quarter 2013	First Quarter 2013
Share price					
High	$ 21.93	$ 21.17	$ 21.18	$ 21.17	$ 21.93
Low	$ 18.62	$ 19.40	$ 19.60	$ 18.62	$ 19.95
Close	$ 19.98	$ 19.98	$ 19.96	$ 19.47	$ 20.94
Volume of Shares traded (millions)	403.9	72.1	130.4	112.7	88.7
Weighted average Shares outstanding (millions)	484.6	484.6	484.6	484.6	484.6

Premium Dividend, Dividend Reinvestment and Optional Share Purchase Plan

The Corporation has a Premium Dividend, Dividend Reinvestment and Optional Share Purchase Plan ("DRIP") which allows eligible Shareholders to direct their dividends to the purchase of additional Shares or receive a premium dividend amount. The DRIP is suspended but could be reinstated in the future to help preserve balance sheet equity or fund future capital investment.

Critical Accounting Estimates and Judgments

In order to provide timely financial information to users, the Corporation makes estimates and uses judgment when determining the assets, liabilities, revenues, expenses, commitments and contingencies reported in the consolidated financial statements and notes. The following estimates and judgments are considered critical because actual results could differ materially from reported results if different assumptions underlying these estimates and judgments were used:

Critical Accounting Estimates

a) Asset Retirement Obligation

In determining the estimated value of the asset retirement obligation, Canadian Oil Sands must estimate the method of reclamation and closure activities and the timing and amount of associated expenditures. Given the long reserve life of Syncrude's leases and emerging technologies in site reclamation, it is difficult to estimate the precise timing and amount of these expenditures. Any changes in the anticipated method or in the timing or amount of expenditures could result in a change to the asset retirement obligation, corresponding property, plant and equipment ("PP&E") asset, accretion expense (within net finance expense), and depreciation and depletion expense.

b) Employee Future Benefits

Canadian Oil Sands accrues its obligations for Syncrude Canada's post-employment benefits using actuarial and other assumptions to estimate the accrued benefit liability and the expense related to the current period. Changes in these assumptions or plan asset returns not included in the accretion of the accrued benefit liability give rise to re-measurement gains and losses. A one per cent decrease in the interest rate used to discount future benefit payments would result in a $209 million increase in Canadian Oil Sands' accrued benefit liability, a $14 million increase in 2013 current service costs and a $4 million decrease in the 2013 interest expense, while a one per cent increase in the interest rate would result in a $159 million decrease in the accrued benefit liability, a $10 million decrease in 2013 current service costs and a $2 million increase in the 2013 interest expense.

c) Impairment

In determining the recoverable amount of assets subject to impairment testing, Canadian Oil Sands must estimate the reserves and resources it expects to recover and the related future net revenues expected to be generated from producing those reserves and resources. Reserves, resources and future net revenues are evaluated and reported in a report prepared by independent petroleum reserve evaluators who determine these evaluations using various factors and assumptions, such as: forecasts of mining and extraction recovery and upgrading yield based on geological and engineering data, projected future rates of production, projected operating costs, Crown royalties and taxes, projected crude oil prices, oil price differentials, and timing and amounts of future capital expenditures and other development costs, all of which are estimates. The factors and assumptions used in the estimates are assessed for reasonableness based on the information available at the time the estimates are prepared. As circumstances change and new information becomes available, the estimates could change. Actual results could vary from estimates, which could cause changes to the asset impairment tests.

d) Depreciation and Depletion

Canadian Oil Sands calculates depreciation expense for the majority of its assets on a straight-line basis and must estimate the useful lives of these assets accordingly. While these useful life estimates are reviewed on a regular basis and depreciation calculations are revised accordingly, actual lives may differ from the estimates, resulting in changes to depreciation expense. Canadian Oil Sands calculates depletion expense for asset retirement and mine development costs on a unit-of-production basis and must estimate reserves and resources, which are used as a component of the depletion calculations to allocate capital costs over their estimated useful lives. As circumstances change and new information becomes available, estimated reserves and resources and the resultant depletion calculations could change.

Critical Accounting Judgments

a) Joint Arrangements

Canadian Oil Sands has applied judgment in determining that it has joint control of Syncrude. This determination recognizes that all major growth decisions outside of the original scope of the operations and all product quality changes require unanimous approval of Syncrude's joint interest owners. Because Canadian Oil Sands' investment in Syncrude is primarily held through an undivided interest, it has a proportionate share of the rights to Syncrude's assets and the obligations for Syncrude's liabilities. As a result, Canadian Oil Sands classifies its investment in Syncrude as a Joint Operation under International Financial Reporting Standard ("IFRS") 11, Joint Arrangements, and presents its proportionate share of the assets, liabilities, revenues and expenses on a line-by-line basis in the consolidated financial statements. If Canadian Oil Sands did not have both joint control and a proportionate share of the rights to Syncrude's assets and obligations for Syncrude's liabilities, the Corporation would present only its net investment in Syncrude and its proportionate share of Syncrude's net income in the consolidated financial statements.

b) Asset Retirement Obligation

Canadian Oil Sands applies judgment in determining that the risk-free interest rate is the appropriate rate to discount the asset retirement obligation. Alternatively, a credit-adjusted rate could be used which would yield a smaller asset retirement obligation and corresponding property, plant and equipment asset, lower depreciation and depletion expense and a higher accretion expense, which is presented within net finance expense.

c) Crown Royalties

When calculating the net revenues on which Crown royalties are based, Canadian Oil sands must determine the appropriate deductible costs. This requires the use of judgment in the application of the governing royalty agreement. It may take several years to establish the appropriate application of the royalty agreement and the final outcome of this could result in amounts different from those initially recorded and could impact Crown royalties in the period in which this is established.

d) Taxes

In determining its current and deferred tax provisions, Canadian Oil Sands must apply judgment when interpreting and applying complex and changing tax laws and regulations. The determination of the appropriate application of these laws and regulations by tax authorities may remain uncertain for several years. The final outcome of such determination could result in amounts different from those initially recorded and would impact current or deferred tax expense in the period in which a determination is made.

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 to be 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 did not impact Canadian Oil Sands as the Corporation already recognized actuarial gains and losses immediately through OCI.
- An expected rate of return on assets is no longer calculated. Instead, the discount rate used to accrete the accrued benefit obligation will now be used to accrete the net accrued benefit liability (the accrued benefit obligation net of the fair value of plan assets). The discount rate is based on a market rate of interest for high-quality corporate debt instruments with cash flows that match the timing and amount of expected benefit payments.
- The interest cost component of employee future benefits expense will now be 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 4 to the consolidated financial statements for the years ended December 31, 2013 and December 31, 2012.

Accounting Pronouncements Not Yet Adopted

In January 2013, the IASB issued amendments to IAS 36, *Impairment of Assets,* which removed fair value guidance from the standard to ensure consistency with the enhanced fair value measurement and disclosure requirements provided under IFRS 13, *Fair Value Measurements*. The amendments to IAS 36 are effective for years beginning on or after January 1, 2014 with earlier application permitted. Canadian Oil Sands does not anticipate that these amendments will result in any accounting or disclosure changes.

In May 2013, the IASB issued International Financial Reporting Interpretations Committee ("IFRIC") Interpretation 21, *Levies*, which provides guidance on when to recognize a liability for levies imposed by governments. The interpretation is effective for years beginning on or after January 1, 2014 with earlier application permitted. Canadian Oil Sands does not anticipate that this standard will result in significant accounting or disclosure changes.

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 long-term debt. The carrying values and fair values of the Corporation's financial instruments are disclosed in Note 19 to the consolidated financial statements. The risks associated with these instruments and the Corporation's management of these risks is disclosed in the "Financial Market Risks" portion of the "Risk Management" section of this MD&A.

Risk Management

Canadian Oil Sands approaches the management of risk systematically through a process designed to identify, categorize and assess risks. Syncrude Canada, as operator of Syncrude, identifies and assesses the operational and environmental, health, and safety ("EH&S") risks that may impact its operations. The Corporation then augments Syncrude Canada's analysis with further consideration of risks specific to Canadian Oil Sands. Risks are categorized based on their probability of occurrence and their potential impact on Canadian Oil Sands' financial results, financial condition, corporate reputation and EH&S performance. Syncrude and Canadian Oil Sands take a number of actions once the risks have been identified and categorized, including avoidance, mitigation, risk transfer and acceptance. In addition to ongoing monitoring and review, the Board of Directors of Canadian Oil Sands is presented at least annually with a summary of management's assessment of the risks and strategies for managing such risks. The Board of Directors reviews the assessment and recommendations, and provides oversight of this risk management process.

There are a number of risks that could impact Canadian Oil Sands' cash flow from operations and net income and, therefore, the dividends ultimately paid to Shareholders. Cash flow from operations is sensitive to a number of factors including: Syncrude production; sales volumes; oil and natural gas prices; oil price differentials; foreign currency exchange rates; operating, development, administration and financing expenses; Crown royalties; taxes; and regulatory and environmental risks. Dividends may also be impacted by Canadian Oil Sands' financing requirements for capital expenditures. Sensitivities to the most significant items affecting cash flow from operations are provided in the "2014 Outlook" section of this MD&A.

The following discusses the significant risks that impact Canadian Oil Sands' cash flow from operations, net income, corporate reputation and EH&S performance. More information regarding Canadian Oil Sands' risks is available in its AIF dated February 20, 2014, which is available on our website at **www.cdnoilsands.com** or at **www.sedar.com**.

Crude Oil Price Risk

The financial results and financial condition of Canadian Oil Sands are substantially dependent on prevailing and expected prices for oil.

Prices for oil are subject to large fluctuations in response to changes in the global and regional supply and demand for oil as well as various other factors including: the condition of the Canadian, United States and global economies; access to markets and sufficient pipeline and rail capacity; the actions of the Organization of Petroleum Exporting Countries; governmental regulation; political stability in the Middle East and elsewhere; war, or the threat of war, in oil producing regions; the domestic and foreign supply of oil and refined products; the price of foreign imports of crude oil and refined products and the availability and price of alternate fuel sources. All of these factors are beyond our control and can result in a high degree of price volatility not only in crude oil prices, but also fluctuating price differentials between heavy and light grades of crude oil and between SCO and light crude oil benchmarks such as WTI and European Brent, all of which can impact prices for SCO.

During the past two years, WTI monthly average prices have fluctuated from U.S. $82 per barrel to U.S. $107 per barrel. As a result of increasing Canadian and United States crude oil supply coupled with logistical and export constraints, this monthly average WTI benchmark has traded at discounts to monthly European Brent prices ranging from $3 per barrel to $23 per barrel over the same period. Canadian Oil Sands' realized SCO to WTI monthly average price differential has ranged from a $10 per barrel premium to a $16 per barrel discount over the last two years.

A prolonged period of low crude oil prices could affect the value of our interest in Syncrude and the level of capital investment and could ultimately result in curtailment of production. Any substantial and extended decline in our realized SCO price would have an adverse effect on COS' cash flow from operations and would likely affect our ability to pay dividends and to repay our debt obligations.

While the Syncrude Project has not been shut down for non-operational reasons since production commenced in 1978, a prolonged period of very low oil prices could result in production being suspended. Any such suspension of production could expose Canadian Oil Sands to significant additional expense and would negatively impact its ability to pay dividends and repay its debt obligations. A prolonged period of very low oil prices could ultimately render the Syncrude Project uneconomic.

Canadian Oil Sands prefers to remain unhedged on crude oil prices; however, during periods of significant capital spending and financing requirements, management may hedge prices to reduce cash flow volatility. Canadian Oil Sands did not have any crude oil price hedges in place during 2013 or 2012; instead, a strong balance sheet is used to mitigate the risk around crude oil price movements. As at February 20, 2014, the Corporation remains unhedged on its crude oil price exposure.

Operational Risk

Our investment in Syncrude is our only producing asset and therefore the results of the Corporation depend on Syncrude's operations. The Syncrude Project is a 24-hour per day, 365-day per year operation with complex, inter-dependent facilities. The shutdown of any part of Syncrude's operation could significantly impact the production of SCO. Causes of production shortfalls and/or interruptions may include, but are not limited to: equipment failures; design errors; operator errors; extended weather-related shutdowns; or catastrophic events such as fire, earthquake, storms, explosions or dam failures. Syncrude is currently undertaking various operational optimization initiatives. However, the expected benefits and improvements in reliability and production resulting from these initiatives may not be realized.

Canadian Oil Sands faces risks associated with competition amongst other oil sands producers for limited resources, in particular skilled labour in the Fort McMurray area where Syncrude and other oil sands producers operate. The demand for these resources creates cost pressure on products and services to operate Syncrude's facilities. Limitations on the availability of an experienced workforce, including high attrition rates in oil sands operations, increase the risk of design or operator error. To mitigate this risk, Syncrude Canada is focused on attracting and retaining experienced and skilled labour. Syncrude Canada offers competitive industry compensation to employees and contract staff and has employee retention and housing programs to deal with the increased demands on local infrastructure. As well, Syncrude's reputation as a socially and environmentally responsible company with industry-leading safety performance supports the company in attracting and retaining labour. Lastly, Syncrude Canada's Management Services Agreement with Imperial Oil enables Syncrude to access people and expertise from Imperial Oil and its affiliates, including ExxonMobil.

There are certain risks associated with the execution of Syncrude's major projects, including without limitation, the Mildred Lake mine train replacements, the centrifuge plant at the Mildred Lake mine and future growth and development projects. These risks include: our ability to obtain the necessary regulatory, environmental and other approvals; Syncrude's ability to successfully consult with local stakeholders and Aboriginal groups; the impact of technology on operations and processes and how new complex technology may not perform as expected; risks relating to schedule, resources and costs, including the availability and cost of materials, equipment and qualified personnel, especially skilled construction and engineering labour; the impact of general economic, business and market conditions; the impact of weather conditions; our ability to finance growth if commodity prices were to stay at low levels for an extended period; the impact of new entrants to the oil sands business which could take the form of competition for skilled people, increased demands on the Wood Buffalo Region, Alberta infrastructure (for example, housing, roads and schools) and price competition for products sold into the marketplace; and the effect of changing government regulation and public expectations in relation to the impact of oil sands development on the environment.

The commissioning and integration of new facilities and the execution of major projects within an operating plant present issues that require risk management. For example, the mine train relocations and replacements are necessary to support mine development advances and for the placement of tailings in pit. If the Mildred Lake mine trains are not relocated on time, there is a risk that Syncrude will not be able to deposit tailings as planned, and therefore produce planned levels of bitumen, for some period.

Inherent in the mining of oil sands and production of SCO is a need to make substantial capital expenditures. The demand for skilled labour and other limited resources impacting operating expenses is having a similar effect on capital expenditures. There is also a risk that capital maintenance at Syncrude will be required more often than currently planned, or that significant capital projects could arise that were not previously anticipated.

We are also exposed to financing risks associated with funding our share of Syncrude's capital program. We have historically minimized this risk by diversifying our funding sources, which include credit facilities and cash flow from operations. In addition, we believe that the Corporation has the ability to access public debt and equity markets, given our asset base and current credit ratings; however, such market access may become restricted. For further discussion, see the "Liquidity Risk" disclosure within the "Financial Market Risk" section of this MD&A.

Syncrude currently has a large inventory of water stored on site and such inventory is growing annually due to the importation and required capture of water. Syncrude has a water management plan that involves treatment and water release. However, Syncrude has not received approval to release any water from its operation. If Syncrude is unable to release water, this may have a negative impact on the cost of its operations or its ability to operate.

The Syncrude Project incorporates operational risk management programs as well as support from Imperial Oil/ExxonMobil through a Management Services Agreement. These organizations apply robust engineering and design standards and use maintenance and inspection procedures to mitigate operational risk. Sustained, safe and reliable operations are critical to achieving targets for production and costs.

Canadian Oil Sands also reduces exposure to some operational risks by maintaining appropriate levels of insurance, primarily business interruption ("BI") and property insurance. The Corporation has purchased total coverage of approximately U.S. $1.3 billion of combined BI and property insurance, net to Canadian Oil Sands, in case Syncrude experiences an event causing a loss or interruption of production, such as a fire or explosion at the operating facilities. The BI insurance is subject to an approximate average 90-day self-retention period. While such insurance mitigates the impact of certain operational upsets, insurance is unlikely to fully protect against catastrophic events or prolonged shutdowns.

Marketing and Transportation of Synthetic Crude Oil Risk

All of our Syncrude production is transported through the Alberta Oil Sands Pipeline ("AOSPL") system, which delivers SCO from the Syncrude plant site to Edmonton, Alberta. The AOSPL system feeds into various other crude oil pipelines that are used to deliver SCO to refinery customers within Canada and the United States. Lack of pipeline capacity or interruptions in pipeline operations could result in apportionment of volumes and therefore adversely impact our crude oil production, sales volumes or the prices received for our SCO. These may be caused by the inability of the pipeline to operate, or they can be related to capacity constraints as the supply of crude oil into the system exceeds the infrastructure capacity. In addition, if the AOSPL system is unable to ship SCO for an extended period of time this would result in the curtailment or shutdown of production at Syncrude and would have a material adverse effect on the business and financial condition of Canadian Oil Sands.

Crude oil supply growth and downstream operational incidents have led to apportionment of volumes on certain pipelines over the past number of years. To date, apportionment has not affected Syncrude production but has restricted our ability to reach preferred markets and adversely impacted our price realizations. A number of projects to build new pipelines, or expand and extend existing pipelines, are currently planned with significant new capacity projected to be available over the coming years. There can be no certainty, however, that investments will be made or that regulatory approvals will be received to provide this capacity or that current capacity will not encounter operational incidents. In addition, planned or unplanned shutdowns, reduced processing rates or closures of our refinery customers may limit our ability to deliver SCO.

Pipeline and rail access and capacity, transportation tariffs, market access and price differentials with competing products are all factors that can affect sales volumes and the realized selling price for SCO. As crude oil production rises and traditional light crude oil refineries execute projects to refine heavy and sour crudes, we anticipate some of our SCO will increasingly be consumed at more distant delivery points. Pipeline transportation costs will rise and COS' price realization will be impacted by these costs as well as supply and demand factors in these markets. As a result, Canadian Oil Sands' realized selling price may be negatively impacted in the future.

Canadian Oil Sands is pursuing committed capacity on a portfolio of proposed pipelines to help secure future market access for our product and enhance our marketing flexibility. As of December 31, 2013, we have commitments on take-or-pay contracts totaling approximately $3.1 billion due over the next 25 years for the transportation and storage of crude oil.

Environmental Risks

Canadian Oil Sands is committed to ensuring that Syncrude develops its oil sands reserves and resources in a responsible way. We are subject to laws and regulations governing the impact Syncrude and other oil sands operations have on the environment. Additionally, we are subject to reputational risk regarding such environmental impacts. The following highlights the key environmental risks at this time:

a) Tailings Management

Syncrude produces a significant volume of fluid fine tailings, which are presently held in settling basins. Syncrude's closure and reclamation plan and thus its Alberta Energy Regulator ("AER") approval depends on the use of composite tails, centrifuge and end pit lakes technology to manage tailings fluids and solids associated with bitumen production. There is an inherent risk that such technologies used by Syncrude may not be as effective as desired or perform as required in order to meet the approved closure and reclamation plan or Directive 074.

Directive 074 allows the AER to take enforcement action against companies that fail to meet industry-wide tailings management criteria. Enforcement actions range from non-compliance fees to increased inspections and suspension or cancellation of approvals. It is noteworthy that Directive 074 is performance-based, and gives companies the flexibility to select the technology most applicable to their operation in order to achieve the performance criteria.

While Syncrude continues to develop tailings and fluid fine tailings reclamation technologies, there is a risk of increased costs to develop and implement various measures, the potential for tailings specific regulatory approval conditions to be attached to future regulatory applications and/or renewals and a risk that Syncrude's approvals could be suspended or cancelled if it cannot comply with the requirements of Directive 074, all of which could have a material adverse effect on Canadian Oil Sands' business and financial condition.

b) Water Access and Emissions

As the Syncrude operations involve the use of water and emissions such as sulphur dioxide and carbon dioxide (CO_2), legislation which significantly restricts or penalizes water use and/or emissions may have a material impact on our operations. No assurance can be given that existing or future environmental regulations will not adversely impact the ability of the Syncrude Project to operate at present levels or increase production, or that such regulations will not result in higher unit costs of production.

Syncrude Joint Venture Ownership Risk

Syncrude is a joint venture currently owned by seven participants. Each participant is entitled to one vote. Operating decisions and those relating to debottlenecking matters require a 51 per cent majority with at least three participants' approving while major growth decisions outside of the original scope of the operations as well as product quality changes require unanimous approval. Syncrude's future plans will depend on such agreement and may depend on the financial strength and views of the other participants at the time such decisions are made. The other participants may have objectives and interests that do not coincide with and may conflict with Canadian Oil Sands' interests.

Public Perception Risk

Development of Canada's oil sands has received significant attention in political, media and activist commentary on the subject of greenhouse gas emissions, water usage, land reclamation and impacts on local stakeholders and Aboriginal groups. Public concerns regarding such issues may directly or indirectly have a negative impact on the profitability of Canadian Oil Sands by: (i) motivating environmental and emissions regulation by governmental authorities, which could increase the cost of operation and reclamation and closure; (ii) compelling legislation or policy that limits the purchase of crude oil produced from Canada's oil sands by governments or other consumers, which, in turn, may limit the market for SCO and reduce its price; and (iii) resulting in proposed pipelines not being able to receive the necessary permits and approvals, which, in turn, may limit the transportation for SCO and reduce its price.

Financial Market Risks

Canadian Oil Sands is subject to financial market risk as a result of fluctuations in foreign currency exchange rates, interest rates, liquidity and credit.

a) Foreign Currency Risk

Canadian Oil Sands' results are affected by fluctuations in the U.S./Cdn currency exchange rates, as sales generated are based on a WTI benchmark price in U.S. dollars while operating expenses and capital expenditures are denominated primarily in Canadian dollars. Over the last two years, the U.S./Cdn exchange rate has ranged from a low of $0.90 U.S./Cdn to a high of $1.03 U.S./Cdn. Our sales exposure is partially offset by U.S. dollar obligations, such as interest costs on U.S. dollar-denominated long-term debt, our U.S. dollar crude oil purchases and our share of Syncrude's U.S. dollar operating and capital costs. In addition, when our U.S. dollar Senior Notes mature, we have exposure to U.S. dollar exchange rates on the principal repayment of the notes. In the year of repayment, this U.S. dollar debt acts as a partial economic hedge against the U.S. dollar-denominated sales receipts we collect from our customers.

The Corporation has not hedged foreign currency risks since 2006 and does not currently intend to enter into any new currency hedge positions. The Corporation may, however, hedge foreign currency exchange rates in the future, depending on the business environment and growth opportunities.

As at December 31, 2013, portions of Canadian Oil Sands' cash and cash equivalents, accounts receivable, accounts payable and all of Canadian Oil Sands' long-term debt were denominated in U.S. dollars. Based on these U.S. dollar closing balances, 2013 net income and comprehensive income would have increased/decreased by approximately $15 million for every $0.01 decrease/increase in the value of the U.S./Cdn currency exchange rate.

b) Interest Rate Risk

Canadian Oil Sands is exposed to interest rate risk as changes in market interest rates may affect the Corporation's financial results and financial condition.

The principal exposure relates to the Corporation's long-term debt, in particular the refinancing of our fixed rate long-term debt on maturity or, to the extent there are amounts drawn, our variable-rate credit facilities. The next long-term debt maturity is in 2019 and, at December 31, 2013, no amounts were drawn on the credit facilities.

Changes in interest rates also impact the Corporation's short-term investments which, given their maturities of less than 90 days at purchase, are continually reinvested, and our obligation for employee future benefits. Changes in interest rates impact the carrying value of the accrued benefit liability as well as the ongoing interest costs, current service costs and cash funding. Additional information about interest rate sensitivity for the Corporation's employee future benefits is provided in the "Critical Accounting Estimates and Judgments" section of this MD&A.

c) Liquidity Risk

Liquidity risk is the risk that Canadian Oil Sands will not be able to meet its financial obligations as they come due. Canadian Oil Sands actively manages its liquidity through cash, debt and equity management strategies. Such strategies encompass, among other factors: having adequate sources of financing available through bank credit facilities, estimating future cash flow from operations based on reasonable production and pricing assumptions, understanding operating commitments and future capital expenditure requirements and complying with debt covenants. In addition, over the long-term, Canadian Oil Sands spreads out the maturities of its various debt tranches and maintains a prudent capital structure.

The next tranche of long-term debt matures in 2019; the $1.5 billion credit facility is undrawn and expires in June 2017; cash balances totalled $806 million at December 31, 2013; and Canadian Oil Sands was in compliance with its debt covenants throughout 2013, collectively resulting in relatively low liquidity risk.

More information regarding the available credit facilities and contractual maturities of Canadian Oil Sands' long-term debt can be found in Note 11 to the consolidated financial statements.

d) Credit Risk

Canadian Oil Sands is exposed to credit risk primarily through customer receivable balances, financial counterparties with whom the Corporation has invested its cash and cash equivalents, and with its insurance providers in the event of an outstanding claim. The maximum exposure to any one customer or financial counterparty is managed through a credit policy that limits exposure based on credit ratings. The policy also specifically limits the aggregate exposure to customers with a credit rating below investment grade to a maximum of 25 per cent of Canadian Oil Sands' consolidated accounts receivable. This credit risk concentration is monitored on a regular basis. Risk is further mitigated as accounts receivable with customers typically are settled in the month following the sale, and investments with financial counterparties are typically short-term in nature and are placed with institutions that have a credit rating of "R-1 (low)" or better, as defined by the Dominion Bond Rating Service ("DBRS").

Canadian Oil Sands carries credit insurance on some counterparties to help mitigate a portion of the impact should a loss occur and continues to transact primarily with investment-grade customers. The Corporation's maximum credit exposure related to customer receivables was $369 million at December 31, 2013. Substantially all accounts receivable at December 31, 2013 were due from investment grade energy producers, financial institutions, and refinery-based customers, and our cash and cash equivalents were invested in deposits and bankers' acceptances with high-quality senior banks as well as investment grade commercial paper. At present, there are no financial assets that are past their maturity or impaired due to credit risk-related defaults.

2013 Actual Results Compared to Outlook

In its 2012 annual MD&A, Canadian Oil Sands estimated 2013 Syncrude production volumes, cash flow from operations and capital expenditures (the "original estimate" or "original Outlook"). During 2013 the Corporation revised these estimates in quarterly reports and information releases to reflect actual results for each quarter and new significant information as it became available (the "revised estimate" or "revised Outlook").

		2013 Outlook	
(millions of Canadian dollars, except volume and per barrel amounts)	2013 Actual	Original[1]	Revised[2]
Operating assumptions			
Syncrude production (mmbbls)	97.5	110.0	98.0
Canadian Oil Sands sales (mmbbls)	35.8	40.4	36.0
Sales, net of crude oil purchases and transportation	$ 3,565	$ 3,233	$ 3,603
Realized SCO selling price ($/bbl)	$ 99.55	$ 80.00	$ 100.00
Operating expenses	$ 1,494	$ 1,482	$ 1,504
Operating expenses per barrel ($/bbl)	$ 41.75	$ 36.67	$ 41.77
Crown royalties	$ 174	$ 113	$ 194
Current taxes	$ 297	$ 350	$ 300
Cash flow from operations[3]	$ 1,349	$ 1,045	$ 1,331
Capital expenditure assumptions			
Major projects	$ 912	$ 836	$ 842
Regular maintenance	$ 323	$ 393	$ 346
Capitalized interest	$ 107	$ 97	$ 104
Total capital expenditures	$ 1,342	$ 1,326	$ 1,292
Business environment assumptions			
West Texas Intermediate (U.S.$/bbl)	$ 98.05	$ 85.00	$ 98.00
Discount to average Cdn$ WTI prices (Cdn$/bbl)	$ (1.10)	$ (5.00)	$ -
Foreign exchange rate (U.S.$/Cdn$)	$ 0.97	$ 1.00	$ 0.98
AECO natural gas (Cdn$/GJ)	$ 3.01	$ 3.50	$ 3.00

[1] *Original 2013 Outlook as provided in the 2012 annual report dated February 21, 2013.*
[2] *Revised 2013 Outlook as provided in the third quarter 2013 quarterly report dated October 30, 2013.*
[3] *Cash flow from operations is an additional GAAP financial measure and is defined in the "Additional GAAP Financial Measures" section of this MD&A.*

Cash flow from operations in 2013 was $1,349 million, $304 million higher than the $1,045 million original estimate, reflecting a higher-than-forecast realized selling price and lower current taxes partially offset by lower-than-forecast sales volumes and higher Crown royalties.

The realized selling price in 2013 averaged $99.55 per barrel, compared with $80.00 per barrel in the Original Outlook, reflecting a U.S. $98 per barrel WTI oil price, a $1.10 per barrel discount to Canadian dollar WTI and an average foreign exchange rate of $0.97 U.S./Cdn.

Current taxes were $297 million in 2013, approximately $50 million below the original estimate, as capital and other expenditures became available for deduction earlier than expected.

Syncrude 2013 production of 97.5 million barrels was lower than Canadian Oil Sands' 110 million barrel original estimate, primarily due to delays completing turnarounds on the Coker 8-1, LC Finer and secondary upgrading units as well as unplanned outages in extraction units. In October 2013, we revised our production estimate to 98 million barrels, based on the results achieved during the first nine months of the year. Canadian Oil Sands' sales volumes in 2013 totalled 35.8 million barrels (average 98,000 barrels per day).

Total operating expenses of $1,494 million were in line with our $1,482 million original estimate, reflecting higher-than-expected maintenance costs associated with the extended turnarounds and the unplanned outages in extraction units, largely offset by lower-than-forecast natural gas prices and mining volumes. Lower-than-forecast sales volumes resulted in per-barrel operating expenses of $41.75 – 14 per cent higher than the $36.67 per-barrel original estimate.

Crown royalties were $174 million in 2013, $61 million higher than the $113 million original estimate, reflecting higher-than-forecast bitumen prices and refinements in our estimates of bitumen values, partially offset by lower-than-forecast bitumen volumes.

Capital expenditures of $1,342 million were in line with our $1,326 million original estimate, as spending on the major projects continued as expected.

2014 Outlook

(millions of Canadian dollars, except volume and per barrel amounts)		**As of February 20, 2014**
Operating assumptions		
Syncrude production (mmbbls)		105
Canadian Oil Sands sales (mmbbls)		38.6
Sales, net of crude oil purchases and transportation	$	3,386
Realized SCO selling price ($/bbl)	$	87.77
Operating expenses	$	1,600
Operating expenses per barrel	$	41.48
Development expenses	$	181
Crown royalties	$	128
Current taxes	$	200
Cash flow from operations[1]	$	1,158
Capital expenditure assumptions		
Major projects	$	653
Regular maintenance	$	361
Capitalized interest	$	83
Total capital expenditures	$	1,097
Business environment assumptions		
West Texas Intermediate (U.S.$/bbl)	$	90.00
Discount to average Cdn$ WTI prices (Cdn$/bbl)	$	(5.00)
Foreign exchange rate (U.S.$/Cdn$)	$	0.97
AECO natural gas (Cdn$/GJ)	$	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.*

The amounts in this 2014 Outlook dated February 20, 2014 are unchanged from the 2014 Outlook dated January 30, 2014, which was provided in the fourth quarter 2013 report.

Canadian Oil Sands estimates annual Syncrude production of 95 to 110 million barrels for 2014. For the purpose of generating our 2014 Outlook, we have selected a single-point production estimate of 105 million barrels (287,700 barrels per day). Net to Canadian Oil Sands, the single-point estimate is equivalent to 38.6 million barrels (105,700 barrels per day). The production estimate reflects a planned turnaround of Coker 8-2 in the second quarter of the year and the successful start-up of the new Mildred Lake mine trains.

Sales, net of crude oil purchases and transportation expense, are estimated to be $3,386 million, reflecting our production estimate and an $88 per barrel plant-gate realized selling price. The estimated selling price assumes a U.S. $90 per barrel WTI oil price, a foreign exchange rate of $0.97 U.S./Cdn, and a SCO discount to Cdn dollar WTI of $5.00 per barrel.

We are estimating operating expenses of $1,600 million in 2013, comprised of $1,423 million in production costs and $177 million in purchased energy costs, reflecting a $3.50 per gigajoule ("GJ") natural gas price assumption. Based on our single-point production estimate, this translates to operating expenses of $41.48 per barrel.

Development expenses are estimated at $181 million in 2014, reflecting expenses related to capital projects.

Crown royalties are estimated at $128 million in 2014, reflecting lower assumed bitumen prices and continued spending on the major projects.

Capital expenditures are estimated to total $1,097 million in 2014, comprised of $653 million of spending on major projects, $361 million in regular maintenance of the business and other projects, and $83 million in capitalized interest.

Current taxes are estimated at $200 million in 2014.

Based on these assumptions, we estimate 2014 cash flow from operations of $1,158 million, or $2.39 per Share.

In 2014, we expect to continue spending existing cash balances to fund our major projects, settle accounts payable of approximately $500 million for taxes and Crown royalties and pay dividends. Based on the assumptions in our 2014 Outlook, net debt is expected to rise to a level within our targeted range of $1 billion to $2 billion by the end of 2014, coincident with the expected substantial completion of our major projects.

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

Outlook Sensitivity Analysis (February 20, 2014)

		Cash Flow from Operations Increase	
Variable	Annual Sensitivity	$ millions[1,2]	$ / Share[1,2]
Syncrude per-barrel operating expense decrease	Cdn$1.00/bbl	$ 23	$ 0.05
Syncrude total operating expense decrease	Cdn$50 million	$ 11	$ 0.02
WTI crude oil price increase	U.S.$1.00/bbl	$ 25	$ 0.05
Syncrude production increase	2 million bbls	$ 40	$ 0.08
Canadian dollar weakening	U.S.$0.01/Cdn$	$ 23	$ 0.05
AECO natural gas price decrease	Cdn$0.50/GJ	$ 15	$ 0.03

[1] *These sensitivities are after the impact of taxes.*
[2] *These sensitivities assume Canadian Oil Sands pays Crown royalties based on net bitumen revenues in 2014. Lower bitumen revenues or higher deductible bitumen-related costs may result in minimum Crown royalties based on gross revenues, which will change the sensitivities to these variables.*

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

Major Projects

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

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

		Total Cost Estimate *($ billions)*	Total Cost Estimate Accuracy *(%)*	Estimated % Complete at Dec 31, 2013[2]	Target In-Service Date
Mildred Lake Mine Train Replacement	Syncrude	$ 4.2	+15%/-15%	80%	Q4 2014
	COS share	1.6			
Centrifuge Tailings Management	Syncrude	$ 1.9	+15%/-15%	70%	H1 2015
	COS share	0.7			

Major Projects – Annual Spending Profile[1]

($ billions)	Spent to December 31, 2013	2014	2015	Total
Syncrude	$ 3.6	$ 2.0	$ 0.5	$ 6.1
Canadian Oil Sands share	$ 1.3	$ 0.8	$ 0.2	$ 2.3

[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 Mildred Lake Mine Train Replacement and Centrifuge Tailings Management projects are tracking to plan. The Aurora North Mine Train Relocation and Aurora North Tailings Management projects were completed in 2013 and have been removed from the spending profile.

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

Controls Environment

Management is responsible for establishing and maintaining adequate internal control over financial reporting. We have established disclosure controls and procedures, internal control over financial reporting, and organization-wide policies to provide reasonable assurance that Canadian Oil Sands' consolidated financial position, financial performance and cash flows are presented fairly. Our disclosure controls and procedures are designed to provide reasonable assurance of the timely disclosure and communication of all material information.

We periodically review and update our internal control systems to reflect changes in our business environment. We did not materially change any of our internal controls during 2013.

All internal control systems, no matter how well designed, have inherent limitations. These systems, therefore, provide reasonable but not absolute assurance that financial information is accurate and complete.

Canadian Oil Sands, under the supervision and participation of management, including the President and Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures and the design of our internal control over financial reporting pursuant to National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings* as of December 31, 2013. In addition, management has evaluated the effectiveness of our internal control over financial reporting as of December 31, 2013 using criteria established in *Internal Control – Integrated Framework* issued in 1992 by the Committee of Sponsoring Organizations of the Treadway Commission. Based on these evaluations, Canadian Oil Sands' management concluded that:

- Our disclosure controls and procedures were effective as of December 31, 2013 to provide reasonable assurance that material information is recorded, processed, summarized and reported within the time periods specified by the applicable Canadian securities regulators. Furthermore, our disclosure controls and procedures are designed to provide reasonable assurance that material information required to be disclosed under applicable Canadian securities regulation is communicated to our management, including our President and Chief Executive Officer and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure; and
- Our internal control over financial reporting as of December 31, 2013 was designed and operated effectively to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Corporation's financial statements for external purposes in accordance with GAAP.

PricewaterhouseCoopers LLP, our auditors, have expressed an unqualified opinion on the effectiveness of Canadian Oil Sands' internal control over financial reporting as of December 31, 2013, as stated in their report.

Management's Report

Financial Information

Management is responsible for the information contained in this annual report. The Consolidated Financial Statements have been prepared in accordance with Canadian generally accepted accounting principles, and include amounts based on management's informed judgments and estimates. Where alternative accounting methods exist, management has chosen those that it deems to be the most appropriate based on Canadian Oil Sands' operations. The financial and operating information included in this annual report is consistent with that contained in the Consolidated Financial Statements in all material respects.

To assist management in fulfilling its responsibilities, systems of accounting, internal controls and disclosure controls are maintained to provide reasonable, but not absolute, assurance that financial information is reliable and accurate and that assets are adequately safeguarded. In addition, Canadian Oil Sands has in place a Code of Business Conduct that applies to all of its employees and directors.

PricewaterhouseCoopers LLP, Chartered Accountants, appointed annually by the Shareholders to serve as Canadian Oil Sands' external auditors, were engaged to conduct an examination of the Consolidated Financial Statements and internal controls in accordance with Canadian generally accepted auditing standards and in accordance with the standards of the Public Company Accounting Oversight Board (United States), and have expressed their opinion on these statements. Canadian Oil Sands also engages independent reserve evaluators to conduct independent evaluations of its crude oil reserves and resources. The external auditors and reserve evaluators have unrestricted access to the management of Canadian Oil Sands, the Audit Committee, the Reserves, Marketing Operations, and Environmental, Health and Safety Committee and the Board of Directors.

The Board of Directors has appointed a four-person Audit Committee, consisting of directors who are neither employees nor officers of Canadian Oil Sands and all of whom are independent. The Audit Committee meets regularly with management and external auditors to discuss controls over the financial reporting process, auditing and other financial reporting matters. In addition, it recommends the appointment of Canadian Oil Sands' external auditors. The Audit Committee meets at least quarterly with management and the external auditors to review and approve interim financial statements prior to their release and recommends the audited annual financial statements to the Board of Directors for their approval. Annually, the Board of Directors reviews and approves Canadian Oil Sands' annual financial statements, Management's Discussion and Analysis, Annual Information Form, Management Proxy Circular and annual reserves and resources estimates. The Board of Directors has approved the annual audited Consolidated Financial Statements and the Management's Discussion and Analysis based on the recommendations of the Audit Committee.

Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting.

Management has assessed the effectiveness of Canadian Oil Sands' internal control over financial reporting as of December 31, 2013 using criteria established in the *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 1992. Based on this evaluation, management concluded that Canadian Oil Sands' internal control over financial reporting was effective as of December 31, 2013.

PricewaterhouseCoopers LLP, our external auditors, has audited the effectiveness of Canadian Oil Sands' internal control over financial reporting as of December 31, 2013 as stated in their report which appears herein.

(signed) **Ryan M. Kubik**
President and Chief Executive Officer
February 20, 2014

(signed) **Robert P. Dawson**
Chief Financial Officer
February 20, 2014

Independent Auditor's Report

To the Shareholders of Canadian Oil Sands Limited

We have completed integrated audits of Canadian Oil Sands Limited's 2013 and 2012 consolidated financial statements and its internal control over financial reporting as at December 31, 2013. Our opinions, based on our audits are presented below.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Canadian Oil Sands Limited, which comprise the consolidated balance sheets as at December 31, 2013 and 2012 and the consolidated statements of income and comprehensive income, shareholders' equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. Canadian generally accepted auditing standards also require that we comply with ethical requirements.

An audit involves performing procedures to obtain audit evidence, on a test basis, about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting principles and policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion on the consolidated financial statements.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Canadian Oil Sands Limited as at December 31, 2013 and 2012 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on internal control over financial reporting

We have also audited Canadian Oil Sands Limited's internal control over financial reporting as at December 31, 2013, based on criteria established in Internal Control – Integrated Framework (1992), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Management's responsibility for internal control over financial reporting

Management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report.

Auditor's responsibility

Our responsibility is to express an opinion on Canadian Oil Sands Limited's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control, based on the assessed risk, and performing such other procedures as we consider necessary in the circumstances.

We believe that our audit provides a reasonable basis for our audit opinion on the company's internal control over financial reporting.

Definition of internal control over financial reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Inherent limitations

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Opinion

In our opinion, Canadian Oil Sands Limited maintained, in all material respects, effective internal control over financial reporting as at December 31, 2013, based on criteria established in Internal Control – Integrated Framework (1992) issued by COSO.

(signed) **PricewaterhouseCoopers LLP**
Chartered Accountants
Calgary, Alberta
February 20, 2014

Consolidated Statements of Income and Comprehensive Income

For the years ended December 31 *(millions of Canadian dollars, except per Share and Share volume amounts)*		**2013**		2012
Sales	**$**	**4,208**	$	3,905
Crown royalties		**(174)**		(202)
Revenues		**4,034**		3,703
Expenses				
Operating (Note 4)		**1,494**		1,505
Development		**133**		101
Crude oil purchases and transportation		**643**		339
Administration		**30**		26
Insurance		**11**		10
Depreciation and depletion (Note 7)		**478**		403
		2,789		2,384
Earnings from operating activities		**1,245**		1,319
Foreign exchange (gain) loss (Note 16)		**88**		(25)
Net finance expense (Notes 4 and 17)		**44**		56
Earnings before taxes		**1,113**		1,288
Tax expense (Notes 4 and 9)		**279**		315
Net income		**834**		973
Other comprehensive income (loss), net of taxes				
Items not reclassified to net income:				
Re-measurements of employee future benefit plans (Notes 4 and 10)		**61**		(13)
Items reclassified to net income:				
Derivative gains		**(3)**		(3)
Comprehensive income	**$**	**892**	$	957
Weighted average Shares (millions)		**485**		485
Shares, end of year (millions)		**485**		485
Net income per Share (Note 14)				
Basic and diluted	**$**	**1.72**	$	2.01

See Notes to Consolidated Financial Statements

Consolidated Statements of Shareholders' Equity

For the years ended December 31 *(millions of Canadian dollars)*	**2013**	2012
Retained earnings		
Balance, beginning of year	**$ 1,823**	$ 1,517
Net income	**834**	973
Re-measurements of employee future benefit plans	**61**	(13)
Dividends	**(678)**	(654)
Balance, end of year	**2,040**	1,823
Accumulated other comprehensive income		
Balance, beginning of year	**9**	12
Reclassification of derivative gains to net income	**(3)**	(3)
Balance, end of year	**6**	9
Shareholders' capital		
Balance, beginning of year	**2,673**	2,673
Issuance of shares	**1**	–
Balance, end of year	**2,674**	2,673
Contributed surplus		
Balance, beginning of year	**10**	8
Share-based compensation	**2**	2
Balance, end of year	**12**	10
Total Shareholders' equity	**$ 4,732**	$ 4,515

See Notes to Consolidated Financial Statements

Consolidated Balance Sheets

As at December 31 *(millions of Canadian dollars)*		**2013**		2012
ASSETS				
Current assets				
Cash and cash equivalents	**$**	**806**	$	1,553
Accounts receivable		**369**		311
Inventories (Note 6)		**163**		137
Prepaid expenses		**8**		9
		1,346		2,010
Property, plant and equipment, net (Note 7)		**8,712**		8,003
Exploration and evaluation (Note 7)		**54**		89
Reclamation trust (Note 12)		**78**		69
	$	**10,190**	$	10,171
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Accounts payable and accrued liabilities (Note 8)	**$**	**786**	$	704
Current taxes (Note 9)		**259**		40
Current portion of employee future benefits (Note 10)		**82**		76
Current portion of long-term debt (Note 11)		**-**		297
		1,127		1,117
Deferred taxes (Note 9)		**1,535**		1,533
Employee future benefits (Note 10)		**226**		362
Long-term debt (Note 11)		**1,602**		1,497
Asset retirement obligation (Note 12)		**868**		1,058
Other liabilities (Note 13)		**100**		89
		5,458		5,656
Shareholders' equity (Note 14)		**4,732**		4,515
	$	**10,190**	$	10,171

Commitments, Contingencies and Guarantees (Notes 21, 22 and 23, respectively)

See Notes to Consolidated Financial Statements

Approved by the Board of Directors

(signed) **Wesley R. Twiss**
Director

(signed) **Donald J. Lowry**
Director

Consolidated Statements of Cash Flows

For the years ended December 31 *(millions of Canadian dollars)*		**2013**		2012
Cash from (used in) operating activities				
Net income	**$**	**834**	$	973
Adjustments to reconcile net income to cash flow from operations:				
Depreciation and depletion		**478**		403
Accretion of asset retirement obligation (Note 12)		**26**		26
Foreign exchange (gain) loss on long-term debt (Note 16)		**115**		(28)
Deferred taxes (Note 9)		**(18)**		275
Share-based compensation		**5**		5
Reclamation expenditures (Note 12)		**(42)**		(54)
Change in employee future benefits and other		**(49)**		(19)
Cash flow from operations		**1,349**		1,581
Change in non-cash working capital (Note 24)		**233**		283
Cash from operating activities		**1,582**		1,864
Cash from (used in) financing activities				
Repayment of senior notes (Note 11)		**(310)**		–
Issuance of senior notes (Note 11)		**–**		689
Issuance of shares (Note 14)		**1**		–
Dividends		**(678)**		(654)
Cash from (used in) financing activities		**(987)**		35
Cash from (used in) investing activities				
Capital expenditures		**(1,342)**		(1,086)
Reclamation trust funding		**(9)**		(10)
Change in non-cash working capital (Note 24)		**(2)**		34
Cash used in investing activities		**(1,353)**		(1,062)
Foreign exchange gain (loss) on cash and cash equivalents held in foreign currency		**11**		(2)
Increase (decrease) in cash and cash equivalents		**(747)**		835
Cash and cash equivalents, beginning of year		**1,553**		718
Cash and cash equivalents, end of year	**$**	**806**	$	1,553
Cash and cash equivalents consist of:				
Cash	**$**	**639**	$	607
Short-term investments		**167**		946
	$	**806**	$	1,553

Supplementary Information (Note 24)

See Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements

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

1) Nature of Operations

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

These audited consolidated financial statements are prepared and reported in Canadian dollars in accordance with Canadian generally accepted accounting principles as set out in Part 1 of the Canadian Institute of Chartered Accountants Handbook and in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and effective on February 20, 2014.

These audited consolidated financial statements were approved by the Corporation's Board of Directors and authorized for issue on February 20, 2014.

3) Summary of Accounting Policies

Consolidation

The consolidated financial statements include the accounts of the Corporation and its subsidiaries (collectively "Canadian Oil Sands"). The Corporation's subsidiaries include incorporated and unincorporated entities, such as partnerships, for which the Corporation has the power to govern financial and operating policies. All intercompany transactions and balances are eliminated on consolidation. Activities of Syncrude and Syncrude Canada are conducted through a joint operation and, accordingly, these financial statements reflect only Canadian Oil Sands' proportionate interest in such activities, which include SCO production, Crown royalties, operating and development expenses, as well as a proportionate interest in Syncrude's property, plant and equipment, inventories, employee future benefits, other liabilities, asset retirement obligation, and associated accounts payable and receivable.

Cash and Cash Equivalents

Cash and cash equivalents include cash in banks and short-term investments with maturities of less than 90 days at purchase.

Inventories

Inventories are comprised of product inventory and materials and supplies. Product inventory includes gas oils, in-transit batches of crude oil and pipeline linefill. All inventories are carried at the lower of average cost and net realizable value. Costs include direct and indirect expenditures incurred in bringing an item or product to its existing condition and location.

The costs of product inventories are recognized as operating expenses or crude oil purchases and transportation expenses when sold. The costs of materials and supplies inventories are recognized as either operating expenses or property, plant and equipment when consumed.

Property, Plant and Equipment

Property, plant and equipment ("PP&E") are recorded at cost less accumulated depreciation and depletion. The cost of a PP&E asset includes its acquisition, development and construction costs, costs directly attributable to bringing the asset into operation, the cost of initial overburden removal and the estimate of any asset retirement costs. Major turnaround costs are capitalized, while non-major turnaround costs, repairs and maintenance and ongoing overburden removal on producing oil sands mines are expensed as operating expenses in the period incurred.

Interest costs attributable to the acquisition or construction of qualifying assets, which require a substantial period of time to prepare for their intended use, are capitalized as PP&E. All other interest costs are recognized as net finance expense in the period in which they are incurred.

PP&E is depreciated on a straight-line basis over the estimated useful lives of the assets, with the exception of mine development and asset retirement costs, which are depleted on a unit-of-production basis over the estimated proved and probable reserves of the producing mines. The following estimated useful lives of the assets depreciated on a straight-line basis are reviewed annually for any changes to those estimates:

Category	Estimated Useful Life
Major turnarounds	2 to 3 years
Vehicles and equipment	5 to 20 years
Mining equipment	Lesser of 25 years and the remaining life of the mine
Upgrading and extraction	25 years
Buildings	20 to 40 years

Construction in progress consists of assets that are not available for use and are therefore not depreciated. Once these assets are substantially complete and ready for their intended use, their costs, including applicable capitalized interest costs, are transferred to the appropriate category of PP&E and depreciated accordingly.

Exploration and Evaluation

Exploration and evaluation ("E&E") assets include the costs of acquiring undeveloped oil sands leases ("oil sands lease acquisition costs") and interests in natural gas licenses located in the Arctic Islands in northern Canada (the "Arctic natural gas assets"). Expenditures relating to capital programs, such as pre-feasibility engineering, technical and support services, research, evaluation drilling and regulatory and stakeholder consultation expenditures are expensed as development expenses. E&E assets are transferred to PP&E once technical feasibility and commercial viability is determined. E&E assets are not available for use and are therefore not amortized.

Impairment

The carrying amounts of PP&E and E&E assets are reviewed for possible impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. E&E assets are also reviewed for impairment at the time they are transferred to PP&E.

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows ("cash generating units" or "CGUs"). An impairment loss is recognized for the amount by which the carrying amount of the CGU exceeds its recoverable amount. The recoverable amount is the higher of a CGU's fair value less costs of disposal (being the amount obtainable from the sale of a CGU in an arm's length transaction, net of disposal costs) and its value in use (being the net present value of the CGU's expected future cash flows).

PP&E is combined with the oil sands lease acquisition costs, within the E&E assets, to form one CGU for impairment testing purposes. Any remaining E&E assets form a second CGU, which is tested for impairment separately from the oil sands assets. Impairments are reversed, net of imputed depreciation and depletion, if the reversal can be related objectively to an event occurring after the impairment charge was recognized. Impairment charges and reversals are recorded as depreciation and depletion.

Revenue Recognition

Revenue from sales of SCO, including both produced and purchased volumes, and other products is recorded when the significant risks and rewards of ownership transfer to the customer and collection is reasonably assured. Revenue is recorded net of a provision for Crown royalties.

Employee Future Benefits

Canadian Oil Sands accrues its proportionate share of Syncrude Canada's post-employment benefit obligations, which include defined benefit and defined contribution pension plans and a defined benefit plan for other post-employment benefits ("OPEB").

The cost of the defined benefit pension and OPEB plans is actuarially determined using the projected unit credit method based on length of service and reflects Canadian Oil Sands' best estimate of financial and demographic variables. The discount rate used to determine the accrued benefit liability is based on a market rate of interest for high-quality corporate debt instruments with cash flows that match the currency and timing of expected benefit payments. Re-measurements of the accrued benefit liability are recognized, net of income taxes, immediately in other comprehensive income and result from actuarial gains and losses and returns on plan assets not included in the accretion of the accrued benefit liability. The current service cost of the defined benefit plans is recognized in operating expenses as the service is rendered. Accretion of the accrued benefit liability is recognized in net finance expense. Any past service costs arising from plan amendments are recognized immediately in operating expenses.

The cost of the defined contribution plans is recognized in operating expenses as the service is rendered and contributions become payable.

Provisions

Canadian Oil Sands recognizes a provision when it has a legal or constructive present obligation as a result of a past event, it is probable that the obligation will require settlement, and a reliable estimate can be made of the amount of the settlement.

Canadian Oil Sands recognizes a provision for its proportionate share of Syncrude's asset retirement obligation for the reclamation and closure of disturbed mine sites and the decommissioning of utilities plants, bitumen extraction plants and the upgrading complex. The asset retirement obligation is measured at the present value of management's best estimate of the future expenditures required to settle the obligation, discounted using the risk-free interest rate. The asset retirement obligation is recorded on initial land disturbance and is added to the carrying amount of the associated PP&E asset and amortized over the asset's remaining life. The discounted asset retirement obligation is accreted over time through charges to net finance expense with actual expenditures charged against the obligation. Revisions to the estimated timing or amount of future expenditures or changes in the risk-free interest rate are recognized as a change in the asset retirement obligation and related PP&E asset.

Canadian Oil Sands also recognizes a provision for Crown royalties, which is determined pursuant to the Syncrude Royalty Amending Agreement and the Syncrude Bitumen Royalty Option Agreement. The provision for Crown royalties is included in Other liabilities on the Consolidated Balance Sheets with the current portion included in accounts payable and accrued liabilities.

Taxes

Deferred tax assets and liabilities are recognized based on the differences between the tax and accounting values of assets and liabilities and/or the timing differences arising when revenues or expenses are included in accounting income in one period and taxable income in a different period. These temporary differences are tax-effected using enacted or substantively enacted tax rates for the periods in which the temporary differences are expected to reverse. The effect of

changes to the tax and accounting values or tax rates is recognized in net income, other comprehensive income or shareholders' equity, consistent with the items to which they relate. Deferred tax assets are recognized only to the extent that it is probable that future taxable profits will be available against which the assets can be utilized.

Current taxes are estimated on taxable income for the current year at the statutory tax rates enacted or substantively enacted.

Share-Based Compensation

Canadian Oil Sands grants share-based awards to officers, select employees and non-executive directors and recognizes the associated share-based compensation expense in administration expenses.

The compensation cost for options granted to officers and select employees is based on the estimated fair values of the options at the time of grant. This cost is recognized in administration expenses over the vesting periods of the options and a corresponding increase to contributed surplus, within shareholders' equity, is recognized at the time of grant. Upon exercise, both the consideration received and the amounts recorded as contributed surplus are recognized as shareholders' capital.

The compensation cost for performance units ("PSUs") awarded to officers, restricted share units ("RSUs") awarded to select employees and deferred share units ("DSUs") awarded to non-executive directors, is based on the fair values of these awards. This cost is recognized in administration expenses over the vesting periods of the awards with a corresponding liability recognized in accounts payable and accrued liabilities. Changes in the fair values of the PSUs, RSUs, and DSUs during the vesting periods are recognized as administration expenses in the period the change occurs. Upon settlement of these awards by cash, the outstanding liability is reduced. Upon settlement by the issuance of common shares, the outstanding liability is reclassified to shareholders' capital.

As an owner in Syncrude, Canadian Oil Sands recognizes its 36.74 per cent share of Syncrude Canada's share-based compensation awards. The compensation cost for these awards, which are comprised of restricted share units ("Syncrude RSUs") and phantom share units ("Syncrude PSUs") awarded to Syncrude Canada employees, is based on the fair values of these awards. This cost is recognized in operating expenses over the shorter of the normal vesting period and the period to eligible retirement if vesting is accelerated on retirement, with the current portion of the corresponding liability recognized in accounts payable and accrued liabilities and the non-current portion in other liabilities. Changes in the fair values of the Syncrude RSUs and Syncrude PSUs during the vesting periods are recognized as operating expenses in the period the change occurs. Upon settlement of these awards, which is always by cash, the outstanding liability is reduced.

Foreign Currency Translation

The principal currency of the economic environment in which the Corporation and its subsidiaries and wholly owned partnership operate is the Canadian dollar. Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates in effect at the end of the period, with the resulting gain or loss recognized in net income. Revenues and expenses are translated into Canadian dollars at average exchange rates. Translation gains and losses on U.S. dollar denominated long-term debt are unrealized until the debt obligations are repaid. All other translation gains and losses are classified as realized.

Net Income Per Share

Basic net income per share is calculated by dividing net income by the weighted-average number of common shares outstanding during the period. Diluted net income per share is calculated by adjusting the weighted-average number of common shares outstanding for dilutive common shares related to the Corporation's share-based compensation plans. The number of shares included is computed using the treasury stock method, which assumes that proceeds received from the exercise of in-the-money options are used to repurchase common shares at the average market price.

Dividends

Dividends on common shares are recognized in the period in which the dividends are approved by the Corporation's Board of Directors.

Financial Instruments

All financial instruments are initially measured at fair value. Subsequent measurement of financial instruments is based on their classification as follows:

Classification	Measurement
Fair value through profit or loss	Fair value with changes recognized in net income
Held to maturity	Amortized cost using effective interest method
Loans and receivables	Amortized cost using effective interest method
Available for sale	Fair value with changes recognized in other comprehensive income
Other liabilities	Amortized cost using effective interest method

Transaction costs in respect of financial instruments measured at fair value are recognized immediately in net income. Transaction costs in respect of other financial instruments are included in the initial cost and amortized accordingly using the effective interest method.

The inputs to fair value measurements of financial instruments, including their classification within a hierarchy that prioritizes the inputs to fair value measurement, are as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities;
Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
Level 3: Inputs for the asset or liability that are not based on observable market data.

4) Changes in Accounting Policies

Employee Future Benefits

In June 2011, the 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 to be 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 did not impact Canadian Oil Sands as the Corporation already recognized actuarial gains and losses immediately through OCI.
- An expected rate of return on assets is no longer calculated. Instead, the discount rate used to accrete the accrued benefit obligation will now be used to accrete the net accrued benefit liability (the accrued benefit obligation net of the fair value of plan assets). The discount rate is based on a market rate of interest for high-quality corporate debt instruments with cash flows that match the timing and amount of expected benefit payments.
- The interest cost component of employee future benefits expense will now be 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:

	Year Ended December 31, 2013		
($ millions, except per Share amounts)	Before Adjustments	Adjustments	After Adjustments
Operating expenses	$ 1,494	$ -	$ 1,494
Net finance expense	$ 28	$ 16	$ 44
Tax expense	$ 283	$ (4)	$ 279
Net income	$ 846	$ (12)	$ 834
Re-measurements of employee future benefit plans, net of tax	$ 49	$ 12	$ 61
Earnings per Share	$ 1.75	$ (0.03)	$ 1.72

	Year Ended December 31, 2012		
($ millions, except per Share amounts)	Before Adjustments	Adjustments	After Adjustments
Operating expenses	$ 1,511	$ (6)	$ 1,505
Net finance expense	$ 39	$ 17	$ 56
Tax expense	$ 318	$ (3)	$ 315
Net income	$ 981	$ (8)	$ 973
Re-measurements of employee future benefit plans, net of tax	$ (21)	$ 8	$ (13)
Earnings per Share	$ 2.02	$ (0.01)	$ 2.01

Consolidation

In May 2011, the IASB issued IFRS 10, *Consolidated Financial Statements*; IFRS 11, *Joint Arrangements*, to replace 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*. These new standards and amendments are effective for years beginning on or after January 1, 2013 with earlier application permitted if all five standards are collectively adopted.

IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements. 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. IFRS 12 requires entities to disclose information about the nature of their interests in joint ventures. These standards were applied by Canadian Oil Sands on January 1, 2013 and did not result in any significant accounting or disclosure changes.

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. The new standard is effective for years beginning on or after January 1, 2013 with earlier application permitted. Canadian Oil Sands has applied this standard on January 1, 2013 without any significant accounting or disclosure changes.

Financial Instruments: Disclosures

In December 2011, the IASB issued amendments to IFRS 7, *Financial Instruments: Disclosures*, effective for years beginning on or after January 1, 2013 with retrospective application for all comparative periods. The amendments require entities to disclose information about the effect, or potential effect, of netting arrangements on an entity's financial position. Canadian Oil Sands has applied this standard beginning January 1, 2013 and additional disclosures have been included in Note 19 as a result.

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. The standard is effective for years beginning on or after January 1, 2013 with earlier application permitted. The interpretation was applied by Canadian Oil Sands on January 1, 2013 and did not result in any accounting or disclosure changes.

5) Critical Accounting Estimates and Judgments

In order to provide timely financial information to users, the Corporation makes estimates and uses judgment when determining the assets, liabilities, revenues, expenses, commitments and contingencies reported in the consolidated financial statements and notes. The following estimates and judgments are considered critical because actual results could differ materially from reported results if different assumptions underlying these estimates and judgments were used:

Critical Accounting Estimates

a) Asset Retirement Obligation

In determining the estimated value of the asset retirement obligation, Canadian Oil Sands must estimate the method of future reclamation and closure activities and the timing and amount of associated expenditures. Given the long reserve life of Syncrude's leases and emerging technologies in site reclamation, it is difficult to estimate the precise timing and amount of these expenditures. Any changes in the anticipated method, or in the timing or amount of the expenditures could result in a change to the asset retirement obligation, corresponding PP&E asset, accretion expense (within net finance expense), and depreciation and depletion expense.

b) Employee Future Benefits

Canadian Oil Sands accrues its obligations for Syncrude Canada's post-employment benefits using actuarial and other assumptions to estimate the accrued benefit liability and the expense related to the current period. Changes in these assumptions or plan asset returns not included in the accretion of the accrued benefit liability give rise to re-measurement gains and losses. A sensitivity analysis of the impacts of changes in the assumed interest rate used to discount the estimated accrued benefit liability is provided in Note 10.

c) Impairment

In determining the recoverable amount of assets subject to impairment testing, Canadian Oil Sands must estimate the reserves and resources it expects to recover and the related future net revenues expected to be generated from producing those reserves and resources. Reserves, resources and future net revenues are evaluated and reported in a report prepared by independent petroleum reserve evaluators who determine these evaluations using various factors and assumptions, such as: forecasts of mining and extraction recovery and upgrading yield based on geological and engineering data, projected future rates of production, projected operating costs, Crown royalties and taxes, projected crude oil prices, oil price differentials and timing and amounts of future capital expenditures and other development costs, all of which are estimates. The factors and assumptions used in the estimates are assessed for reasonableness based on the information available at the time the estimates are prepared. As circumstances change and new information becomes available, the estimates could change. Actual results could vary from estimates, which could cause changes to the asset impairment tests.

d) Depreciation and Depletion

Canadian Oil Sands calculates depreciation expense for the majority of its assets on a straight-line basis and must estimate the useful lives of these assets accordingly. While these useful life estimates are reviewed on a regular basis and depreciation calculations are revised accordingly, actual lives may differ from the estimates, resulting in changes to depreciation expense.

Canadian Oil Sands calculates depletion expense for asset retirement and mine development costs on a unit-of-production basis and must estimate reserves and resources, which are used as a component of the depletion calculations to allocate capital costs over their estimated useful lives. As circumstances change and new information becomes available, estimated reserves and resources and the resultant depletion calculations could change.

Critical Accounting Judgments

a) Joint Arrangements

Canadian Oil Sands has applied judgment in determining that it has joint control of Syncrude. This determination recognizes that all major growth decisions outside of the original scope of the operations and all product quality changes require unanimous approval of Syncrude's joint interest owners. Because Canadian Oil Sands' investment in Syncrude is primarily held through an undivided interest, it has a proportionate share of the rights to Syncrude's assets and the obligations for Syncrude's liabilities. As a result, Canadian Oil Sands classifies its investment in Syncrude as a *Joint Operation* under IFRS 11, *Joint Arrangements*, and presents its proportionate share of the assets, liabilities, revenues and expenses on a line-by-line basis in the consolidated financial statements. If Canadian Oil Sands did not have both joint control and a proportionate share of the rights to Syncrude's assets and obligations for Syncrude's liabilities, the Corporation would present only its net investment in Syncrude and its proportionate share of Syncrude's net income in the consolidated financial statements.

b) Asset Retirement Obligation

Canadian Oil Sands applies judgment in determining that the risk-free interest rate is the appropriate rate to discount the asset retirement obligation. Alternatively, a credit-adjusted rate could be used which would yield a smaller asset retirement obligation and corresponding PP&E asset, lower depreciation and depletion expense and a higher accretion expense, which is presented in net finance expense.

c) Crown Royalties

When calculating the net revenues on which Crown royalties are based, Canadian Oil Sands must determine the appropriate deductible costs. This requires the use of judgment in the application of the royalty agreement. It may take several years to establish the appropriate application of the royalty agreement and the final outcome of this could result in amounts different from those initially recorded and could impact Crown royalties in the period in which this is established.

d) Taxes

In determining its current and deferred tax provisions, Canadian Oil Sands must apply judgment when interpreting and applying complex and changing tax laws and regulations. The determination of the appropriate application of these laws and regulations by tax authorities may remain uncertain for several years. The final outcome of such determination could result in amounts different from those initially recorded and would impact current or deferred tax expense in the period in which a determination is made.

6) Inventories

As at *($ millions)*	**December 31 2013**	December 31 2012
Materials and supplies	**$ 120**	$ 109
Products	**43**	28
	$ 163	$ 137

7) Property, Plant and Equipment, Net

($ millions)	Year Ended December 31, 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	–	–	31	–	–	54	1,257	–	1,342
Change in asset retirement costs	–	–	–	–	(190)	–	–	–	(190)
Retirements	(25)	(8)	(24)	–	–	(46)	–	–	(103)
Reclassifications[1]	233	552	2	21	17	–	(1,111)	286	–
Balance at December 31, 2013	$ 5,508	$ 1,941	$ 695	$ 345	$ 851	$ 174	$ 1,647	$ 678	$ 11,839
Accumulated depreciation									
Balance at January 1, 2013	$ 1,447	$ 539	$ 320	$ 107	$ 180	$ 73	$ –	$ 121	$ 2,787
Depreciation	204	70	53	8	43	59	–	6	443
Retirements	(25)	(8)	(24)	–	–	(46)	–	–	(103)
Reclassifications[1]	–	–	–	–	–	–	–	–	–
Balance at December 31, 2013	$ 1,626	$ 601	$ 349	$ 115	$ 223	$ 86	$ –	$ 127	$ 3,127
Net book value at December 31, 2013	**$ 3,882**	**$ 1,340**	**$ 346**	**$ 230**	**$ 628**	**$ 88**	**$ 1,647**	**$ 551**	**$ 8,712**

($ millions)	Year Ended December 31, 2012								
	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	–	–	23	–	–	76	987	–	1,086
Change in asset retirement costs	–	–	–	–	93	–	–	–	93
Retirements	(3)	(20)	(27)	(1)	–	(24)	–	(1)	(76)
Reclassifications[1]	615	-	-	15	–	–	(630)	–	–
Balance at December 31, 2012	$ 5,300	$ 1,397	$ 686	$ 324	$ 1,024	$ 166	$ 1,501	$ 392	$ 10,790
Accumulated depreciation									
Balance at January 1, 2012	$ 1,284	$ 480	$ 294	$ 100	$ 138	$ 53	$ –	$ 111	$ 2,460
Depreciation	166	79	53	8	42	44	–	11	403
Retirements	(3)	(20)	(27)	(1)	–	(24)	–	(1)	(76)
Reclassifications[1]	–	–	–	–	–	–	–	–	–
Balance at December 31, 2012	$ 1,447	$ 539	$ 320	$ 107	$ 180	$ 73	$ –	$ 121	$ 2,787
Net book value at December 31, 2012	**$ 3,853**	**$ 858**	**$ 366**	**$ 217**	**$ 844**	**$ 93**	**$ 1,501**	**$ 271**	**$ 8,003**

[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.*

Depreciation and depletion expense reported on the consolidated statements of net income and comprehensive income includes a $35 million charge in 2013 to write off the remaining carrying value of the Arctic natural gas assets, which were classified as exploration and evaluation assets on the consolidated balance sheets.

In 2013, interest costs of $107 million were capitalized and included in property, plant and equipment (2012 – $92 million) based on a 6.5 per cent interest capitalization rate (2012 – 6.7 per cent).

8) Accounts Payable and Accrued Liabilities

As at *($ millions)*	**December 31 2013**	December 31 2012
Trade payables	**$ 491**	$ 498
Crown royalties	**334**	215
Current portion of asset retirement obligation (Note 12)	**28**	44
Interest payable	**23**	29
	876	786
Less non-current portion of Crown royalties	**(90)**	(82)
Accounts payable and accrued liabilities	**$ 786**	$ 704

9) Income Taxes

The income tax expense recorded on the Consolidated Statements of Income and Comprehensive Income differs from the amount computed by applying the combined Canadian federal and provincial statutory income tax rate to earnings before taxes as follows:

For the years ended December 31 *($ millions, except income tax rates)*	**2013**	2012
Earnings before taxes	**$ 1,113**	$ 1,288
Statutory income tax rates		
Canadian basic federal income tax rate	**25.0%**	25.0%
Canadian federal abatement	**-10.0%**	-10.0%
Alberta provincial income tax rate	**10.0%**	10.0%
	25.0%	25.0%
Expected taxes at statutory rate	**278**	322
Add (deduct) the tax effect of:		
Non-taxable portion of capital (gains) losses	**13**	(4)
Adjustments for prior years and other	**(12)**	(3)
Tax expense	**$ 279**	$ 315

Tax expense is comprised of the following:

For the years ended December 31 *($ millions)*	**2013**	2012
Current tax expense	**$ 297**	$ 40
Deferred tax expense	**(18)**	275
	$ 279	$ 315

The amounts shown on the Consolidated Balance Sheets as deferred taxes represent the differences between the accounting and tax values of assets and liabilities and/or the timing differences arising when revenues or expenses are included in accounting income in one period and taxable income in a different period. These temporary differences are tax-effected using enacted or substantively enacted tax rates expected to apply when the temporary differences reverse.

The deferred tax liability on the Consolidated Balance Sheets is comprised of the following:

As at *($ millions)*	**December 31 2013**	December 31 2012
Deferred tax assets (liabilities):		
Property, plant and equipment in excess of tax value	**$ (1,658)**	$ (1,596)
Partnership earnings[1]	**(162)**	(282)
Liabilities in excess of tax value[2]	**285**	345
Net deferred tax liability[3]	**$ (1,535)**	$ (1,533)

[1] *The Corporation's taxable income was primarily generated through a partnership and a portion of the related taxes are payable in future periods.*
[2] *Liabilities in excess of tax value mainly consist of the asset retirement obligation and employee future benefits.*
[3] *The $1,535 million deferred tax liability includes $33 million related to temporary differences that are expected to reverse in 2014.*

The following estimated balances are available for deduction against future taxable income:

As at *($ millions)*	December 31 2013
Undepreciated Capital Costs[1]	$ 2,104
Canadian Development Expenses	21
Other	10
	$ 2,135
Taxable income generated through a partnership on which taxes are payable in future periods[2]	(654)
Estimated balances available for deduction against future taxable income	$ 1,481

[1] *Approximately 44 per cent of Undepreciated Capital Costs are currently available for deduction at the declining balance rate of 25 per cent annually while the balance relates to multi-year capital projects and were not available for deduction at December 31, 2013.*

[2] *The Corporation's taxable income is primarily generated through a partnership.*

10) Employee Future Benefits

Syncrude Canada has defined benefit pension and other post-employment benefit ("OPEB") plans and a defined contribution pension plan covering most of its employees. Benefits under defined benefit pension plans are determined by employees' earnings and tenure. Defined contribution benefits are determined by the amount of contributions, the returns on the invested contributions and employees' tenure. Other post-employment benefits include certain health care and life insurance benefits for retirees, their beneficiaries and covered dependants.

The defined benefit and defined contribution pension plans are subject to government regulations, which govern the administration and certain terms of the plans. The regulations related to the defined benefit pension plan also enforce minimum funding levels and require an actuarial valuation at least every three years, or more frequently if the plans are significantly underfunded. The most recent actuarial valuation of the defined benefit plan was completed in 2013 and was as of December 31, 2012. The next actuarial valuation will be completed during 2014 and will be as of December 31, 2013.

The Syncrude Canada pension committee, comprised of representatives of the Syncrude owners, provides oversight of the employee future benefit plans, including management of the plans' assets.

a) Defined Benefit Plans

The following table presents the changes in Canadian Oil Sands' share of Syncrude Canada's accrued benefit liability, which is comprised of the accrued benefit obligation, partially offset by the fair value of the plan assets:

	Pension		Other Post-Employment Benefits		Total	
($ millions)	**2013**	2012	**2013**	2012	**2013**	2012
Accrued benefit obligation						
Balance, beginning of year	**$ 997**	$ 902	**$ 60**	$ 60	**$ 1,057**	$ 962
Current service cost	**44**	42	**1**	1	**45**	43
Estimated interest expense[1]	**40**	38	**2**	3	**42**	41
Re-measurements:						
(Gain) loss from change in demographic assumptions[2]	**52**	(1)	**3**	(3)	**55**	(4)
(Gain) loss from change in financial assumptions[3]	**(87)**	44	**(4)**	1	**(91)**	45
Employee contributions	**6**	7	**–**	–	**6**	7
Benefits paid	**(40)**	(35)	**(2)**	(2)	**(42)**	(37)
Balance, end of year	**$ 1,012**	$ 997	**$ 60**	$ 60	**$ 1,072**	$ 1,057
Fair value of plan assets						
Balance, beginning of year	**$ 619**	$ 497	**$ –**	$ –	**$ 619**	$ 497
Estimated interest income[1]	**26**	24	**–**	–	**26**	24
Re-measurements:						
Return on plan assets[4]	**46**	24			**46**	24
Employer contributions	**106**	100	**–**	–	**106**	100
Employee contributions	**6**	7	**–**	–	**6**	7
Benefits paid	**(39)**	(33)	**–**	–	**(39)**	(33)
Balance, end of year	**$ 764**	$ 619	**$ –**	$ –	**$ 764**	$ 619
Accrued benefit liability	**$ (248)**	$ (378)	**$ (60)**	$ (60)	**$ (308)**	$ (438)
Current portion	**$ (80)**	$ (74)	**$ (2)**	$ (2)	**$ (82)**	$ (76)
Non-current portion	**$ (168)**	$ (304)	**$ (58)**	$ (58)	**$ (226)**	$ (362)

[1] *Estimated interest expense and estimated interest income are presented within net finance expense in the consolidated statements of income and comprehensive income.*
[2] *Demographic assumptions include: average life expectancy; rates of turnover, disability and early retirement; number of dependents eligible for benefits; and claim rates (OPEB plan). The re-measurement loss in 2013 reflects the impact of an increase in the estimated average lifespan of the plans' beneficiaries as a result of new actuarial standards.*
[3] *Financial assumptions include: discount rate; future salaries and benefit levels; future medical costs (OPEB plan); and taxes payable by the plans.*
[4] *Difference between actual return on plan assets and estimated interest income.*

The weighted average duration of the defined benefit obligation is 15 years.

The costs of the defined benefit plans have been recorded in the Consolidated Statements of Income and Comprehensive Income as follows:

	Pension		Other Post-Employment Benefits		Total	
As at December 31 *($ millions)*	**2013**	2012	**2013**	2012	**2013**	2012
Operating expenses[1]	**$ 44**	$ 42	**$ 1**	$ 1	**$ 45**	$ 43
Net finance expense[2]	**14**	14	**2**	3	**16**	17
Recognized in net income	**$ 58**	$ 56	**$ 3**	$ 4	**$ 61**	$ 60
Re-measurements	**$ (81)**	$ 19	**$ (1)**	$ (2)	**$ (82)**	$ 17
Tax on re-measurements	**21**	(5)	**–**	1	**21**	(4)
Recognized in other comprehensive income	**$ (60)**	$ 14	**$ (1)**	$ (1)	**$ (61)**	$ 13

[1] *Current service cost.*
[2] *Includes estimated interest cost on the accrued benefit obligation, partially offset by estimated interest income on the plan assets.*

The accrued benefit obligation relates to both unfunded and partly funded plans as follows:

	Pension		Other Post-Employment Benefits		Total	
As at December 31 *($ millions)*	**2013**	2012	**2013**	2012	**2013**	2012
Accrued benefit obligation arising from:						
Unfunded plans	**$ 52**	$ 48	**$ 60**	$ 60	**$ 112**	$ 108
Partly funded plans	**960**	949	**–**	–	**960**	949
	$ 1,012	$ 997	**$ 60**	$ 60	**$ 1,072**	$ 1,057

The asset allocation for Syncrude Canada's defined benefit plan assets was as follows:

	Percentage of Plan assets	
As at December 31	**2013**	2012
Equity securities[1]	**60**	60
Debt securities[2]	**40**	40
	100	100

[1] *Comprised of global and Canadian securities.*
[2] *Comprised mainly of a long-term bond fund.*

Syncrude Canada's plan assets are invested using a passive strategy with investments in indexed securities. Investments that are not traded in active markets are not significant.

Significant Assumptions and Risks

Inherent in a defined benefit plan for employee future benefits are several risks associated with meeting the defined benefit obligation as it becomes due. The most significant risks are asset volatility and changes in interest rates, inflation and life expectancy. Each of these risks can have a material impact on the accrued benefit liability in any given year. The risk of asset volatility is mitigated through investment strategies.

The significant assumptions used to measure the defined benefit plans are as follows:

	Pension		Other Post-Employment Benefits	
As at December 31	**2013**	2012	**2013**	2012
Discount rate applied to accrued benefit liability	**4.50%**	4.00%	**4.50%**	4.00%
Rate of compensation increase	**3.17%**	4.56%	**3.17%**	4.56%
Rate of supplemental health care cost increases[1]	**n/a**	n/a	**7.00%**	7.00%
Rate of dental cost increases	**n/a**	n/a	**4.00%**	4.00%
Average life expectancy in years:				
Male	**87**	**85**	**87**	**85**
Female	**89**	**87**	**89**	**87**

[1] *A seven per cent annual rate of increase was assumed for 2012, 2013 and 2014 decreasing by 0.5 per cent each year thereafter to a five per cent ultimate rate in 2018.*

Sensitivity Analysis

A one per cent decrease in the interest rate used to discount future benefit payments would result in a $209 million increase in Canadian Oil Sands' accrued benefit liability, a $14 million increase in 2013 current service costs and a $4 million decrease in the 2013 interest expense. A one per cent increase in the interest rate would result in a $159 million decrease in Canadian Oil Sands' accrued benefit liability, a $10 million decrease in 2013 current service costs and a $2 million increase in the 2013 interest expense.

A one per cent increase in the assumed salary scale would result in a $51 million increase in Canadian Oil Sands' accrued benefit liability, a $6 million increase in 2013 current service costs and a $4 million increase in the 2013 interest expense. A one per cent decrease in the salary scale would result in an equivalent decrease in the accrued benefit liability, current service costs and interest expense.

A one per cent increase in assumed health care and dental cost trend rates would increase Canadian Oil Sands' accrued benefit liability by $5 million, and a one per cent decrease would decrease the accrued benefit liability by $4 million. A one per cent increase or decrease in the health care cost trend rates would have an insignificant impact on Canadian Oil Sands' current service costs and interest expense.

Increasing the average lifespan for members by one year would increase the accrued benefit liability by $23 million.

b) Defined Contribution Plans

Canadian Oil Sands' share of Syncrude Canada's defined contribution pension plan expense was approximately $3 million in 2013 (2012 – $3 million).

c) Cash Payments

Canadian Oil Sands' share of Syncrude's total cash payments for employee future benefits for 2013 was $112 million (2012 – $107 million), consisting of cash contributed by Syncrude Canada to its defined benefit pension and OPEB plans and to its defined contribution pension plan, including contributions to fund benefit payments in excess of registered plan limits.

Canadian Oil Sands' share of Syncrude Canada's estimated 2014 cash payments to fund the defined benefit plans is $109 million. The actuarial valuation completed in 2013 requires Syncrude Canada to fund a pension plan solvency deficiency. Canadian Oil Sands' share of these funding requirements is $279 million, which is due over the next 12 years.

11) Long-term Debt and Credit Facilities

Outstanding long-term debt

As at *($ millions)*	**December 31 2013**	December 31 2012
8.2% Senior Notes due April 1, 2027 (U.S. $73.95 million) (a)	**$ 77**	$ 72
7.9% Senior Notes due September 1, 2021 (U.S. $250 million) (b)	**262**	245
5.8% Senior Notes due August 15, 2013 (U.S. $300 million) (c)	**–**	297
7.75% Senior Notes due May 15, 2019 (U.S. $500 million) (d)	**529**	494
4.5% Senior Notes due April 1, 2022 (U.S. $400 million) (e)	**420**	392
6.0% Senior Notes due April 1, 2042 (U.S. $300 million) (f)	**314**	294
	$ 1,602	$ 1,794
Less current portion of long-term debt	**–**	(297)
	$ 1,602	$ 1,497

Canadian Oil Sands' 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.

a) 8.2% Senior Notes
On April 1, 1997, the Corporation issued U.S. $75 million of 8.2% Senior Notes, maturing April 1, 2027, and retired U.S. $1.05 million during 2000. Interest is payable on the notes semi-annually on April 1 and October 1.

b) 7.9% Senior Notes
On August 24, 2001, the Corporation issued U.S. $250 million of 7.9% Senior Notes, maturing September 1, 2021. Interest is payable on the notes semi-annually on March 1 and September 1. The Corporation has agreed to maintain its debt-to-total capitalization at an amount less than 55 per cent.

c) 5.8% Senior Notes
On August 6, 2003, the Corporation issued U.S. $300 million of 5.8% Senior Notes, which matured and were repaid on August 15, 2013. Interest was payable on the notes semi-annually on February 15 and August 15.

d) 7.75% Senior Notes
On May 11, 2009, the Corporation issued U.S. $500 million of 7.75% Senior Notes, maturing May 15, 2019. Interest is payable on the notes semi-annually on May 15 and November 15.

e) 4.5% Senior Notes
On March 29, 2012, the Corporation issued U.S. $400 million of 4.5% Senior Notes, maturing April 1, 2022. Interest is payable on the notes semi-annually on April 1 and October 1.

f) 6.0% Senior Notes
On March 29, 2012, the Corporation issued U.S. $300 million of 6.0% Senior Notes, maturing April 1, 2042. Interest is payable on the notes semi-annually on April 1 and October 1.

Credit facilities

Canadian Oil Sands' credit facilities had the following aggregate limits:

As at *($ millions)*	**December 31 2013**
Operating credit facility (a)	$ 1,500
Extendible revolving term facility (b)	40
Line of credit (c)	175
	$ 1,715

Canadian Oil Sands' credit facilities are unsecured. The credit facility agreements contain covenants restricting Canadian Oil Sands' ability to sell all or substantially all of its assets or to change the nature of its business. The credit facility agreements also require Canadian Oil Sands to maintain its total debt-to-total capitalization at an amount less than 60 per cent, or 65 per cent in certain circumstances involving acquisitions.

a) Operating Credit Facility

The $1,500 million credit facility expires on June 1, 2017. Amounts borrowed through this facility bear interest at a floating rate based on either prime interest rates or bankers' acceptances plus a credit spread. Any unused amounts are subject to standby fees. As at December 31, 2013, no amounts were drawn against this facility (no amounts were drawn against the facility at December 31, 2012).

b) Extendible Revolving Term Facility

The $40 million extendible revolving term facility is a two year facility expiring June 30, 2015. This facility may be extended on an annual basis with the agreement of the bank. Amounts borrowed through this facility bear interest at a floating rate based on bankers' acceptances plus a credit spread. Any unused amounts are subject to standby fees. At December 31, 2013, no amounts were drawn against this facility (no amounts were drawn against the facility at December 31, 2012).

c) Line of Credit

The $175 million line of credit is made up of one-year revolving letter of credit facilities. Letters of credit drawn on these facilities mature June 30th each year and are automatically renewed, unless notification to cancel is provided at least 60 days prior to expiry by either Canadian Oil Sands or the financial institution providing the facility. Letters of credit written on the facilities bear interest at a credit spread. Letters of credit of approximately $75 million have been written against the line of credit as at December 31, 2013 (December 31, 2012 – $75 million).

12) Asset Retirement Obligation and Reclamation Trust

Canadian Oil Sands and each of the other Syncrude owners are liable for their share of ongoing obligations related to the reclamation and closure of the Syncrude properties on abandonment. The Corporation estimates reclamation and closure expenditures on disturbed mines and existing facilities will be made over approximately the next 70 years and has applied a risk-free interest rate of 3.25 per cent at December 31, 2013 (December 31, 2012 – 2.25 per cent) in deriving the asset retirement obligation.

($ millions)	**2013**	2012
Asset retirement obligation, beginning of year	**$ 1,102**	$ 1,037
(Increase) decrease in risk-free interest rate	**(217)**	68
Reclamation expenditures	**(42)**	(54)
Increase in estimated reclamation and closure expenditures	**27**	25
Accretion expense	**26**	26
Asset retirement obligation, end of year	**$ 896**	$ 1,102
Less current portion	**(28)**	(44)
Non-current portion	**$ 868**	$ 1,058

The changes in the asset retirement obligation due to increases and decreases in the risk-free interest rate and increases in estimated reclamation and closure expenditures were recorded as changes in property, plant and equipment. The $28 million current portion of the asset retirement obligation is included in accounts payable and accrued liabilities, while the $868 million non-current portion is presented separately as an asset retirement obligation on the December 31, 2013 Consolidated Balance Sheet. The total undiscounted estimated cash flows required to settle Canadian Oil Sand's share of the asset retirement obligation were $2,160 million at December 31, 2013 (December 31, 2012 – $2,104 million).

The reclamation and closure expenditures will be funded from Canadian Oil Sands' cash flow from operations and a reclamation trust. In addition to annual funding for reclamation expenditures, Canadian Oil Sands deposits $0.25 per barrel of production attributable to its working interest in Syncrude to a reclamation trust established for the purpose of funding its

share of reclamation and closure obligations. As at December 31, 2013, the balance of the reclamation trust, including interest earned on investments, was $78 million (December 31, 2012 - $69 million).

Additionally, Canadian Oil Sands has posted letters of credit with the Province of Alberta in the amount of $75 million (December 31, 2012 – $75 million) to secure its pro rata share of the reclamation and closure obligations of the Syncrude owners.

13) Other Liabilities

As at *($ millions)*	**December 31 2013**	December 31 2012
Non-current portion of Crown royalties[1]	**$ 90**	$ 82
Other	**10**	7
Other liabilities	**$ 100**	$ 89

[1] *Transition royalties due under Syncrude's Royalty Amending Agreement and payable in January 2015 and January 2016.*

14) Shareholders' Equity

a) Shareholders' Capital

The Corporation is authorized to issue an unlimited number of Common Shares without nominal or par value, and a maximum of 10,000,000 preferred shares, issuable in series.

	Number of Shares *(millions)*	Proceeds *($ millions)*
Shareholders' capital, January 1, 2012	484.53	$ 2,673
Issued under share-based compensation plans	0.03	–
Shareholders' capital, December 31, 2012	484.56	2,673
Issued under share-based compensation plans	0.01	1
Shareholders' capital, December 31, 2013	484.57	$ 2,674

b) Net Income Per Share

The following table summarizes the Shares used in calculating net income per Share:

For the years ended December 31 *(millions)*	**2013**	2012
Weighted-average Shares outstanding, Basic	**485**	485
Effect of options	**–**	–
Weighted-average Shares outstanding, Diluted	**485**	485

c) Dividends

During the year, the Corporation paid dividends of $678 million (2012 – $654 million) or $1.40 per Share (2012 – $1.35 per Share). On January 30, 2014, the Corporation declared a quarterly dividend of $0.35 per Share for a total dividend of approximately $170 million. The dividend will be paid on February 28, 2014 to Shareholders of record on February 21, 2014.

15) Share-based Compensation

Canadian Oil Sands issues options, PSUs and RSUs under its long-term incentive plans for employees and DSUs as a component of non-executive directors' compensation. In addition, Syncrude Canada issues Syncrude RSUs and Syncrude PSUs for which Canadian Oil Sands records its 36.74 per cent ownership share.

The following table indicates the number of units outstanding and the amounts Canadian Oil Sands recorded in its consolidated financial statements related to share-based compensation awards in 2013 and 2012:

($ millions, except unit amounts)	Options (a)	PSUs (b)	RSUs (c)	DSUs (d)	Syncrude RSUs (e)	Syncrude PSUs (f)	Total
2013							
Units outstanding at December 31	**2,975,896**	**282,638**	**30,640**	**91,194**	**796,777**	**1,833,768**	
Expense recognized during the year	**$ 3**	**$ 2**	**$ –**	**$ 1**	**$ 8**	**$ –**	**$ 14**
Liability recognized at December 31	**n/a**	**$ 4**	**$ –**	**$ 2**	**$ 11**	**$ 6**	**$ 23**
2012							
Units outstanding at December 31	2,200,923	240,102	19,541	50,352	576,573	1,931,522	
Expense recognized during the year	$ 2	$ 2	$ –	$ 1	$ 7	$ –	$ 12
Liability recognized at December 31	n/a	$ 4	$ –	$ 1	$ 8	$ 7	$ 20

Details of the share-based compensation awards are as follows:

(Units)	**Options (a)**	**PSUs (b)**	**RSUs (c)**	**DSUs (d)**	**Syncrude RSUs (e)**	**Syncrude PSUs (f)**
Outstanding at January 1, 2013	**2,200,923**	**240,102**	**19,541**	**50,352**	**576,573**	**1,931,522**
Granted during 2013	**962,173**	**118,833**	**14,886**	**40,842**	**380,962**	**–**
Redeemed during 2013	**(6,338)**	**(76,297)**	**–**	**–**	**(114,440)**	**(68,350)**
Forfeited during 2013	**(180,862)**	**–**	**(3,787)**	**–**	**(46,318)**	**(29,404)**
Outstanding at December 31, 2013[1]	**2,975,896**	**282,638**	**30,640**	**91,194**	**796,777**	**1,833,768**
Less unvested at December 31, 2013	**(1,335,516)**	**(282,638)**	**(30,640)**	**–**	**(796,777)**	**(537,922)**
Vested at December 31, 2013	**1,640,380**	**–**	**–**	**91,194**	**–**	**1,295,846**
Unvested awards scheduled to vest during:						
2014	**559,694**	**74,329**	**7,546**	**–**	**178,858**	**322,981**
2015	**457,990**	**89,476**	**10,935**	**–**	**275,083**	**214,941**
2016	**317,832**	**118,833**	**12,159**	**–**	**342,836**	**–**
	1,335,516	**282,638**	**30,640**	**–**	**796,777**	**537,922**

[1] *The weighted-average exercise price of options outstanding at December 31, 2013 was $24.89 and the weighted-average remaining life of options outstanding at December 31, 2013 was 3.9 years.*

a) Options

Canadian Oil Sands' options provide the holder with a right to purchase a Share at the exercise price determined at the grant date. For options granted prior to 2011, exercise prices are reduced by dividends over a threshold amount. Subject to certain exceptions relating to retirement, death or termination, the options vest by one-third following the date of grant in each of the first three years and expire seven years after the date of grant.

The weighted-average exercise price and significant assumptions for options granted during 2013 were as follows:

	2013
Weighted-average exercise price ($)	**20.70**
Assumed interest rate (%)	**1.48**
Assumed life (years)	**5**
Assumed volatility (%)	**30**
Assumed dividend yield (%)	**6.40**
Weighted-average grant-date fair value ($/option)	**2.76**

b) PSUs

Canadian Oil Sands' PSUs are awarded and settled in cash, in Shares purchased in the secondary market, or in Shares issued from treasury, at the end of a three-year vesting period. The settlement value is based on the Corporation's Share price at the end of the vesting period, dividends paid by the Corporation during the vesting period and the total Shareholder return generated by the Corporation relative to a comparator group, comprised of other industry peers, over the vesting period.

c) RSUs

Canadian Oil Sands' RSUs are awarded and settled in cash, in Shares purchased in the secondary market, or in Shares issued from treasury, at the end of a three-year vesting period. The settlement value is based on the Corporation's Share price at the end of the vesting period and dividends paid by the Corporation during the vesting period.

d) DSUs

Canadian Oil Sands' DSUs are awarded and settled in cash, in Shares purchased in the secondary market or in Shares issued from treasury. DSUs vest immediately upon grant and settle when a director's service ceases. The settlement value is based on the Corporation's Share price at settlement and dividends paid by the Corporation while the DSUs are outstanding.

e) Syncrude RSUs

Syncrude Canada awards Syncrude RSUs to certain employees. Subject to certain exceptions relating to retirement, death or termination, Syncrude RSUs are settled in cash at the end of a three-year vesting period. There are two types of Syncrude RSUs. The cash settlement for the first type is based on the weighted-average price of certain Syncrude owners' shares and the total shareholder return of such owners' shares over the vesting period relative to a peer group. The cash settlement for the second type is based purely on the weighted-average price of certain Syncrude owners' shares, and is not contingent on shareholder return.

f) Syncrude PSUs

Syncrude Canada awards Syncrude PSUs to certain employees. Subject to certain exceptions relating to retirement, death or termination, Syncrude PSUs have a term of seven years and vest in equal amounts over a three-year period. Syncrude PSUs are settled in cash at a value based on the amount by which the weighted-average price of certain Syncrude owners' shares on the settlement date exceeds the weighted-average price on the grant date.

16) Foreign Exchange

For the years ended December 31 *($ millions)*		**2013**		2012
Foreign exchange (gain) loss – long-term debt	**$**	**115**	$	(28)
Foreign exchange (gain) loss – other		**(27)**		3
Total foreign exchange (gain) loss	**$**	**88**	$	(25)

17) Net Finance Expense

For the years ended December 31 *($ millions)*		**2013**		2012
Interest costs on long-term debt	**$**	**123**	$	117
Less capitalized interest on long-term debt		**(107)**		(92)
Interest expense on long-term debt	**$**	**16**	$	25
Interest expense on employee future benefits		**16**		17
Accretion of asset retirement obligation		**26**		26
Interest income		**(14)**		(12)
Net finance expense	**$**	**44**	$	56

18) Capital Management

The Corporation's capital consists of cash and cash equivalents, debt and Shareholders' equity. The balance of each of these items at December 31, 2013 and 2012 was as follows:

($ millions, except % amounts)	**December 31 2013**	December 31 2012
Long-term debt[1,2]	**$ 1,602**	$ 1,794
Cash and cash equivalents[1]	**(806)**	(1,553)
Net debt[3,4]	**$ 796**	$ 241
Shareholders' equity[1]	**$ 4,732**	$ 4,515
Total net capitalization[3,5]	**$ 5,528**	$ 4,756
Total capitalization[3,6]	**$ 6,334**	$ 6,309
Net debt-to-total net capitalization[3,7] (%)	**14**	5
Long-term debt-to-total capitalization[3,8] (%)	**25**	28

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

The Corporation's objective for managing capital is to maximize long-term Shareholder value by:

- ensuring financing capacity for Syncrude's oil sands-related investing activities;
- targeting an investment grade credit rating with financial flexibility to control risk and allow the Corporation to maintain its crude oil price exposure; and
- distributing to Shareholders any cash that is not required for financing Syncrude's operations or capital investment.

Net debt, which is comprised of current and non-current portions of long-term debt less cash and cash equivalents, increased to $796 million at December 31, 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 in 2013 increased the Canadian equivalent carrying value of Canadian Oil Sands' outstanding long-term debt, all of which is denominated in U.S. dollars, by $115 million. As a result, net debt-to-total net capitalization increased to 14 per cent at December 31, 2013 from five per cent at December 31, 2012.

In August, 2013, Canadian Oil Sands repaid U.S. $300 million of Senior Notes upon maturity. As a result, long-term debt-to-total capitalization fell to 25 per cent at December 31, 2013 from 28 per cent at December 31, 2012.

Shareholders' equity increased to $4,732 million at December 31, 2013 from $4,515 million at December 31, 2012, as net income exceeded dividends in 2013.

As disclosed in Note 11, the 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. Given the long-term debt-to-total capitalization of 25 per cent at December 31, 2013, a significant increase in debt or decrease in equity would be required to negatively impact the Corporation's financial flexibility.

19) 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 carrying values of the Corporation's financial instruments and their related categories at December 31, 2013 and 2012 were as follows:

As at *($ millions)*	**December 31 2013**	December 31 2012
Financial Assets		
Loans and receivables		
Cash and cash equivalents	**$ 806**	$ 1,553
Accounts receivable	**369**	311
Reclamation trust	**78**	69
	$ 1,253	$ 1,933
Financial Liabilities		
Other liabilities		
Accounts payable and accrued liabilities[1]	**$ 760**	$ 662
Long-term debt[2]	**1,602**	1,794
	$ 2,362	$ 2,456

[1] *Excludes current portion of asset retirement obligation and other non-financial instruments.*
[2] *Includes current and non-current portions of long-term debt.*

Offsetting Financial Assets and Financial Liabilities

The carrying values of accounts receivable and accounts payable and accrued liabilities have each been reduced by $49 million ($25 million at December 31, 2012) as a result of netting agreements and the intention to settle on a net basis with counterparties.

Fair Values

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

As at *($ millions)*	**December 31 2013**	December 31 2012
8.2% Senior Notes due April 1, 2027 (U.S. $73.95 million)	**$ 95**	$ 104
7.9% Senior Notes due September 1, 2021 (U.S. $250 million)	**321**	332
5.8% Senior Notes due August 15, 2013 (U.S. $300 million)	**-**	309
7.75% Senior Notes due May 15, 2019 (U.S. $500 million)	**636**	628
4.5% Senior Notes due April 1, 2022 (U.S. $400 million)	**425**	435
6.0% Senior Notes due April 1, 2042 (U.S. $300 million)	**323**	350
	$ 1,800	$ 2,158

Financial Risks

a) Foreign Currency Risk

Canadian Oil Sands' results are affected by fluctuations in the U.S./Cdn currency exchange rates, as sales generated are based on a WTI benchmark price in U.S. dollars while operating expenses and capital expenditures are denominated primarily in Canadian dollars. Over the last two years, the U.S./Cdn exchange rate has ranged from a low of $0.90 U.S./Cdn to a high of $1.03 U.S./Cdn. Our sales exposure is partially offset by U.S. dollar obligations, such as interest costs on U.S. dollar-denominated long-term debt, our U.S. dollar crude oil purchases and our share of Syncrude's U.S. dollar operating and capital costs. In addition, when our U.S. dollar Senior Notes mature, we have exposure to U.S. dollar exchange rates on the principal repayment of the notes. In the year of repayment, this U.S. dollar debt acts as a partial economic hedge against the U.S. dollar-denominated sales receipts we collect from our customers.

The Corporation has not hedged foreign currency risks since 2006 and does not currently intend to enter into any new currency hedge positions. The Corporation may, however, hedge foreign currency exchange rates in the future, depending on the business environment and growth opportunities.

As at December 31, 2013, portions of Canadian Oil Sands' cash and cash equivalents, accounts receivable, accounts payable and all of Canadian Oil Sands' long-term debt were denominated in U.S. dollars. Based on these U.S. dollar closing balances, 2013 net income and comprehensive income would have increased/decreased by approximately $15 million (2012 – $14 million) for every $0.01 decrease/increase in the value of the U.S./Cdn currency exchange rate.

b) Interest Rate Risk

Canadian Oil Sands is exposed to interest rate risk as changes in market interest rates may affect the Corporation's financial results and financial condition. The principal exposure relates to the Corporation's long-term debt, in particular the refinancing of our fixed rate long-term debt on maturity or, to the extent there are amounts drawn, our variable-rate credit facilities. The next long-term debt maturity is in 2019 and, at December 31, 2013, no amounts were drawn on the credit facilities. Changes in interest rates also impact the Corporation's short-term investments which, given their maturities of less than 90 days at purchase, are continually reinvested.

c) Liquidity Risk

Liquidity risk is the risk that Canadian Oil Sands will not be able to meet its financial obligations as they come due. Canadian Oil Sands actively manages its liquidity through cash, debt and equity management strategies. Such strategies encompass, among other factors: having adequate sources of financing available through bank credit facilities, estimating future cash flow from operations based on reasonable production and pricing assumptions, understanding operating commitments and future capital expenditure requirements and complying with debt covenants. In addition, over the long-term, Canadian Oil Sands spreads out the maturities of its various debt tranches and maintains a prudent capital structure.

The next tranche of long-term debt matures in 2019; the $1.5 billion credit facility is undrawn and expires in June 2017; cash balances totalled $806 million at December 31, 2013; and Canadian Oil Sands was in compliance with its debt covenants throughout 2013, collectively resulting in relatively low liquidity risk.

More information regarding the available credit facilities and contractual maturities of Canadian Oil Sands' long-term debt can be found in Note 11.

The expected timing of cash flows related to financial liabilities is outlined below:

	Cash Outflow By Period				
($ millions)	Total	2014	2015 to 2016	2017 to 2018	After 2018
Accounts payable and accrued liabilities[1]	$ 760	$ 760	$ –	$ –	$ –
Long-term debt[2]	$ 2,788	$ 107	$ 214	$ 214	$ 2,253

[1] *Excludes current portion of asset retirement obligation and other non-financial instruments.*
[2] *Includes both principal and interest payments and differs from the carrying value of the long-term debt which excludes interest payments.*

d) Credit Risk

Canadian Oil Sands is exposed to credit risk primarily through customer receivable balances, financial counterparties with whom the Corporation has invested its cash and cash equivalents, and with its insurance providers in the event of an outstanding claim. The maximum exposure to any one customer or financial counterparty is managed through a credit policy that limits exposure based on credit ratings. The policy also specifically limits the aggregate exposure to customers with a credit rating below investment grade to a maximum of 25 per cent of Canadian Oil Sands' consolidated accounts receivable. This credit risk concentration is monitored on a regular basis. Risk is further mitigated as accounts receivable with customers typically are settled in the month following the sale, and investments with financial counterparties are typically short-term in nature and are placed with institutions that have a credit rating of "R-1 (low)" or better, as defined by the Dominion Bond Rating Service ("DBRS").

Canadian Oil Sands carries credit insurance on some counterparties to help mitigate a portion of the impact should a loss occur and continues to transact primarily with investment-grade customers. The Corporation's maximum credit exposure related to customer receivables was $369 million at December 31, 2013 ($311 million at December 31, 2012). Substantially all accounts receivable at December 31, 2013 were due from investment grade energy producers, financial institutions, and refinery-based customers, and our cash and cash equivalents were invested in deposits and bankers' acceptances with high-quality senior banks as well as investment grade commercial paper. At present, there are no financial assets that are past their maturity or impaired due to credit risk-related defaults.

20) Key Management Personnel Compensation

Key management personnel include the Corporation's Board of Directors and certain members of senior management. Canadian Oil Sands recorded the following amounts in its financial statements relating to key management personnel compensation in 2013 and 2012:

($ millions)	**2013**	2012
Expense for the year		
Short-term benefits expense[1]	**$ 7**	$ 5
Share-based compensation expense	**5**	5
	$ 12	$ 10
Liability recorded at December 31[2]	**$ 6**	$ 5

[1] *Short-term benefits include salaries, annual incentive plan payments, the Corporation's contributions to savings accounts on behalf of key management personnel and fees paid to directors.*

[2] *Liability owing to key management personnel for short-term benefits and share-based compensation.*

21) Commitments

Canadian Oil Sands is obligated to make future cash payments under contractual agreements that it has entered into either directly or as a 36.74 per cent owner in Syncrude. Cash from operating activities and existing cash balances are expected to be sufficient to fund the contractual obligations and commitments as they become due. The following table outlines the significant commitments that the Corporation will be required to fund which are not recorded as liabilities:

	Cash Outflow By Period				
($ millions)	Total	2014	2015 to 2016	2017 to 2018	After 2018
Pipeline and storage (a)	$ 3,069	$ 53	$ 169	$ 304	$ 2,543
Natural gas and diesel purchases (b)	105	105	–	–	–
Capital expenditures (c)	74	74	–	–	–
Other (d)	267	102	83	31	51
	$ 3,515	$ 334	$ 252	$ 335	$ 2,594

a) Pipeline and Storage

Canadian Oil Sands transports crude oil to customers and incurs transportation and storage costs as a result. To secure access to preferred markets and enhance marketing flexibility, the Corporation has take-or-pay commitments for the transportation and storage of crude oil. Commitments for crude oil transportation are primarily on proposed pipelines still subject to regulatory approval. Amounts are due under these commitments over the next 23 years.

b) Natural Gas and Diesel Purchases

Canadian Oil Sands is committed to its share of Syncrude's purchase commitments for natural gas and diesel deliveries in 2014 at floating market prices.

c) Capital Expenditures

Capital expenditure commitments are comprised of Canadian Oil Sands' share of Syncrude's funding commitments primarily related to the remaining major projects: the Mildred Lake Mine Train Replacement and Centrifuge Tailings Management projects. Amounts are due in 2014.

d) Other

Other commitments primarily include:

- $61 million for Canadian Oil Sands' share of Syncrude Canada's employee retention program costs for 2014 through 2018;
- $47 million for Canadian Oil Sands' share of Syncrude Canada's non-cancellable annual fixed service fees for 2014 through 2016, due under a management services agreement with Imperial Oil Resources; and
- $36 million for Canadian Oil Sands' share of Syncrude's commitment for tire purchases for 2014 through 2024.

22) Contingencies

Various suits and claims arising in the ordinary course of business are pending against Syncrude Canada. While the ultimate effect of such actions cannot be ascertained at this time, in the opinion of the Corporation's management and in consultation with its legal counsel, the possibility of an outflow of resources is remote. Syncrude Canada, as well as Canadian Oil Sands and the other Syncrude owners, also have claims pending against various parties, the outcomes of which are not yet determinable.

In December, 2013, the Syncrude owners and the Alberta government settled their dispute over the basis for determining "floor price", quality and location adjustments under the Syncrude Royalty Amending Agreement and, as a result, Canadian Oil Sands no longer has a contingent liability for additional Crown royalties.

23) Guarantees

Canadian Oil Sands has posted performance standby letters of credit with the Province of Alberta which are renewed annually. The letters of credit guarantee to the Province of Alberta the obligations of Canadian Oil Sands' interest in future reclamation and closure of the Syncrude mines and plants (Note 12). The Province of Alberta can draw on the letters of credit if Syncrude fails to perform its reclamation and closure duties. The maximum potential amount of payments Canadian Oil Sands may be liable for pursuant to these letters of credit is $75 million.

24) Supplementary Information

a) Change in Non-Cash Working Capital

For the years ended December 31 *($ millions)*	**2013**	2012
Operating activities:		
Accounts receivable	**$ (58)**	$ 65
Inventories	**(26)**	5
Prepaid expenses	**1**	1
Accounts payable and accrued liabilities ("AP")	**82**	225
Current taxes	**219**	40
Other	**13**	(19)
AP changes reclassified to investing activities	**2**	(34)
Change in operating non-cash working capital	**$ 233**	$ 283
Investing activities:		
Accounts payable and accrued liabilities	**$ (2)**	$ 34
Change in investing non-cash working capital	**$ (2)**	$ 34
Change in total non-cash working capital	**$ 231**	$ 317

b) Income Taxes and Interest Paid

For the years ended December 31 *($ millions)*		**2013**		2012
Income taxes paid	**$**	**77**	$	–
Interest paid	**$**	**126**	$	106

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) Major Customers

In connection with the marketing and sale of Canadian Oil Sands' own synthetic crude oil for the year ended December 31, 2013, the Corporation had three customers (2012 – four) which individually accounted for more than 10 per cent of consolidated sales. Sales to these customers in 2013 were approximately $1,495 million (2012 – $1,844 million). Concentration of sales is monitored regularly and, in management's assessment, the Corporation is not dependent upon these major customers.

d) Geographical Areas

For the years ended December 31 *($ millions)*		**2013**		2012
Canada	**$**	**3,715**	$	3,422
United States		**493**		483
Total Sales[1]	**$**	**4,208**	$	3,905

[1] *Sales are allocated to each country based on the location of the sale.*

25) Accounting Pronouncements Not Yet Adopted

In January 2013, the IASB issued amendments to IAS 36, *Impairment of Assets,* which removed fair value guidance from the standard to ensure consistency with the enhanced fair value measurement and disclosure requirements provided under IFRS 13, *Fair Value Measurements*. The amendments to IAS 36 are effective for years beginning on or after January 1, 2014 with earlier application permitted. Canadian Oil Sands does not anticipate that these amendments will result in any accounting or disclosure changes.

In May 2013, the IASB issued IFRIC Interpretation 21, *Levies*, which provides guidance on when to recognise a liability for levies imposed by governments. The interpretation is effective for years beginning on or after January 1, 2014 with earlier application permitted. Canadian Oil Sands does not anticipate that this standard will result in significant accounting or disclosure changes.

Forward-Looking Information

In the interest of providing shareholders and potential investors of Canadian Oil Sands Limited (the "Corporation" or "we" or "our") with information regarding the Corporation, including management's assessment of the Corporation's future production and cost estimates, plans and Syncrude operations, certain statements throughout this annual report 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 annual report include, but are not limited to, statements with respect to: the estimated amount of total capital expenditures, estimated completion percentages and anticipated target in-service dates for the Mildred Lake Mine Train Replacement and the centrifuge plant at the Mildred Lake mine; the belief that capital spending will decline significantly after 2014; the anticipated benefits of wet crushing technology; the timing and anticipated benefits of the modifications of the bitumen centrifuges and hydrogen plants; the expectations regarding the timing of construction and spending for the Mildred Lake Extension project (the "MLX Project"); the expectation that the MLX Project should enable Syncrude to access a large bitumen source at a lower cost than a new mine; the timing of the development of the Aurora South leases; the expectations regarding where our synthetic crude oil ("SCO") will be consumed in the future; the expectation that our SCO will continue to be in strong demand by refineries; the expectations regarding future crude oil production growth and demand and the source of the future crude oil production and demand; plans regarding crude oil hedges in the future; the expectation that the Mildred Lake Mine Train Replacement will be complete on time and on budget in 2014; the expected 2014 single-point Syncrude production estimate of 105 million barrels (38.6 million barrels net to the Corporation); the expectation that the centrifuge plant at the Mildred Lake mine will be 95% complete after 2014; the expectation that Syncrude will apply for regulatory approval of the MLX Project in 2014; all expectations regarding net debt; the belief that Syncrude will be positioned for enhanced operating and environmental performance after 2014; the belief that the Mildred Lake Mine Train Replacement should set Syncrude up for 10 to 20 years of non-declining production; the anticipated operational and reliability improvements of the Mildred Lake Mine Train Replacement; the anticipated results from Syncrude's tailings technologies and the estimated reserves and resources of the Corporation.

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, estimates, 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, there can be no assurance that such 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 the date hereof 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 Syncrude 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 that could cause results to differ materially from those expressed in the forward-looking statements contained in this annual report include, but are not limited to: the impacts of legal and/or regulatory changes especially those which relate to royalties, taxation, tailings and the environment; the impact of technology on operations and processes and how new complex technology may not perform as expected; labour turnover and shortages and the productivity achieved from labour; uncertainty of estimates with respect to reserves and resources; the supply and demand metrics for oil and natural gas; the impact that pipeline capacity and apportionment and refinery demand have on prices for SCO; the variances of stock market activities generally; the obtaining of required owner approvals from the Syncrude Participants for expansions, operational issues and contractual issues; volatility of crude oil and natural gas prices; volatility of the SCO to West Texas Intermediate differential; currency and interest rate fluctuations; the Corporation's 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 inability of the Corporation to continue to meet the listing requirements of the Toronto Stock Exchange; the inability of Syncrude to obtain required consents, permits or approvals; the impact of Syncrude being unable to meet the conditions of its approval for its tailings management plan under Directive 074; general economic, business and market conditions; various events which could disrupt operations including fires, equipment failures and severe weather; unsuccessful or untimely implementation of capital or maintenance projects and such other risks and uncertainties described in the Corporation's Annual Information Form dated February 20, 2014 and in the reports and filings made with the 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 annual report are made as of the date of this annual report 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 annual report are expressly qualified by this cautionary statement.

In any reference to contingent resources in this annual report, there is no certainty that it will be commercially viable to produce any portion of the resources.

In any reference to prospective resources in this annual report, there is no certainty that any portion of the resources will be discovered. If discovered, there is no certainty that it will be commercially viable to produce any portion of the resources.

The financial results of the Corporation have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are reported in Canadian dollars, unless otherwise stated.

Additional GAAP and Non-GAAP Financial Measures

In this annual report, we refer to financial measures that do not have any standardized meaning as prescribed by Canadian GAAP. These financial measures include additional GAAP financial measures (which are line items, headings or subtotals in the financial statements that are not mandated by Canadian GAAP, and other financial measures that are disclosed in the notes to the financial statements) and non-GAAP financial measures (which are additional financial measures that are not presented within 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 and non-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 (which is calculated as cash from operating activities before changes in non-cash working capital); cash flow from operations per share (which is calculated as cash flow from operations divided by the weighted-average number of shares outstanding in the period); and net debt-to-total net capitalization (which is calculated as net debt, comprised of long-term debt less cash and cash equivalents, divided by net debt plus shareholders' equity).

Non-GAAP financial measures include: net debt-to-cash flow from operations (which is calculated as net debt, comprised of long-term debt less cash and cash equivalents, divided by cash from operating activities before changes in non-cash working capital); return on average productive capital employed (which is calculated as net income before the after-tax impacts of interest expense (net of interest income) and foreign exchange gains and losses on long-term debt, divided by average net debt plus shareholders' equity, less capitalized costs related to major expansion projects not yet in use); return on average shareholders' equity (which is calculated as net income divided by average shareholders' equity outstanding during the year); and free cash flow (which is calculated as cash from operating activities before changes in non-cash working capital less capital expenditures).

For more information on additional GAAP financial measures please refer to our 2013 annual MD&A.

Alberta oil sand(s) deposits: The four deposits, Athabasca, Peace River, Cold Lake and Wabasca, have total resources in place estimated at 1.7 trillion to 2.5 trillion barrels. The Athabasca Oil Sands deposit, Alberta's largest and most accessible source of bitumen, contains more than one trillion barrels of bitumen over an area encompassing more than 30,000 square kilometres.

Bitumen: A molasses-like substance that, in its raw state, is a heavy oil. It is a naturally occurring viscous mixture that requires upgrading or blending to make it transportable by pipeline and useable by conventional refineries.

Carbon dioxide (CO2): A non-toxic gas produced from decaying materials, respiration of plant and animal life, and combustion of organic matter, including fossil fuels; carbon dioxide is the most common greenhouse gas produced by human activities.

Centrifuge plant: Proven technology that converts tailings into a soft, clay-rich soil that can be used in reclamation efforts.

Cokers/fluid coking: A major part of the upgrading process whereby high temperatures in a coker break down the complex bitumen molecules, reject carbon and cause bitumen molecules to reformulate into lighter fractions that become the main ingredients in upgraded crude oil.

Composite tails plant: Mixes mature fine tailings with gypsum and coarse tailings sand to transform the mature fine tailings into solid material suitable for reclamation.

Conventional oil: Petroleum found in liquid form, flowing naturally, or capable of being pumped without further processing or dilution.

Feedstock(s): Raw material supplied to refinery, oil sands upgrader, or petrochemical plant.

Mine train/train: Modular units for crushing and mixing the oil sands with warm water to facilitate the extraction of bitumen from the oil sands.

Oil sand(s): A composition of sand, bitumen, mineral-rich clays and water.

Oil sand(s) lease: A long-term agreement with the provincial government that permits the leaseholder to extract bitumen, other metals and minerals contained in the oil sands in the specified lease area.

Ore grade: The percentage of bitumen by weight in the oil sands.

Reclamation: The return of land used in oil sands operations to a productive state. Significant investments are being made by industry into advanced reclamation technology and techniques.

Synthetic crude oil: A high-quality product resulting from the mining, extraction and upgrading of bitumen.

Tailings: A combination of water, sand, silt, fine clay particles and residual hydrocarbon that is a by-product of removing bitumen from oil sand.

Tailings systems: Separation of water from sand and clay to enable incorporation of solids into reclamation landscapes and recycling of water back into the operations.

Tight oil: Light crude oil that is trapped in shale, limestone and sandstone formations and can only be produced economically using hydraulic fracturing, horizontal drilling, or other advanced techniques.

Total volume to bitumen in place (TV/BIP): The ratio of total ore plus overburden volume to total bitumen in place.

Turnaround: A unit shutdown essential for good maintenance of the mining, producing and upgrading facilities. A turnaround reduces production but does not usually halt it entirely as the various operating units are often duplicated.

Upgrader: A facility that upgrades bitumen (extra heavy oil) into synthetic crude oil.

Upgrading: The conversion of heavy bitumen into a lighter crude oil by increasing the ratio of hydrogen to carbon, either by removing carbon (coking) or adding hydrogen (hydroprocessing).

Reserves and Resources Definitions

Proved reserves: Reserves that can be estimated with a high degree of certainty to be recoverable. NI 51-101 further identifies the certainty level for proved reserves as "at least a 90% probability that the quantities actually recovered will equal or exceed the estimated proved reserves".

Proved plus probable reserves: Additional reserves that are less certain to be recovered than proved reserves. NI 51-101 defines the certainty level as "at least a 50% probability that the quantities actually recovered will equal or exceed the sum of the estimated proved plus probable reserves". Therefore, under NI 51-101, the proved plus probable reserves represent a "best estimate" or "expected reserves".

Contingent resources: Quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations using established technology or technology under development, but which are not currently considered to be commercially recoverable due to one or more contingencies.

Prospective resources: Quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects. Prospective resources have both an associated chance of discovery and a chance of development.

Best estimate: Term used to describe an uncertainty category for resources estimates referring to the best estimate of the quantity that will actually be recovered. It is equally likely that the actual remaining quantities recovered will be greater or less than the "best estimate". The best estimate of Contingent and Prospective Resources is prepared independent of the risks associated with achieving commercial production.

Financial Metrics

Cash flow from operations: Cash from operating activities before changes in non-cash working capital.

Free cash flow: Cash from operating activities before changes in non-cash working capital less capital expenditures.

Netback price: Realized SCO selling price, less operating expenses and Crown royalties.

Net debt-to-cash flow from operations: Net debt divided by cash flow from operations.

Net debt-to-total net capitalization: Net debt divided by net debt plus shareholders' equity.

Return on average shareholders' equity: Net income divided by average shareholders' equity.

Return on average productive capital employed: Net income before the after-tax impacts of interest expense, net of interest income, and foreign exchange gains and losses on long-term debt, divided by average net debt plus shareholders' equity, less capitalized costs related to major expansion projects not yet in use.

Total shareholder return: Change in share price over a period of time assuming all dividends are reinvested.

Abbreviations

barrel(s): **bbl, bbls**

barrel(s)/day: **bbl/d, bbls/d, bpd**

carbon dioxide: **CO^2**

greenhouse gases: **GHG(s)**

millions of barrels: **mmbbls**

sulphur dioxide: **SO^2**

Syncrude synthetic crude oil: **SCO**

thousands of barrels: **mbbls**

West Texas Intermediate: **WTI**

($ millions, except as indicated)	**2013**	2012[1]	2011	2010[2]	2009
Financial					Not adjusted for IFRS
Sales, after crude oil purchases and transportation expense	**3,565**	3,566	3,934	3,180	2,615
Operating expenses	**1,494**	1,505	1,501	1,387	1,328
Development expenses[3]	**133**	101	113	105	141
Crown royalties	**174**	202	307	306	228
Administration	**30**	26	25	20	24
Insurance	**11**	10	8	11	9
Net finance expense	**44**	56	46	82	110
Depreciation and depletion	**478**	403	381	429	553
Goodwill impairment	**–**	–	–	–	52
Foreign exchange (gain) loss	**88**	(25)	22	(60)	(161)
Tax expense (recovery)	**279**	315	387	(289)	(101)
Net income	**834**	973	1,144	1,189	432
Per share, basic and diluted	**1.72**	2.01	2.36	2.46	0.89
Cash flow from operations[4]	**1,349**	1,581	1,897	1,232	754
Per share[4]	**2.78**	3.26	3.91	2.55	1.56
Dividends	**678**	654	533	896	435
Per share	**1.40**	1.35	1.10	1.85	0.90
Capital expenditures	**1,342**	1,086	643	582	409
Reserves (billions of SCO bbls, net to COS)					
Proved reserves	**0.7**	0.8	0.8	0.9	1.0
Proved plus probable reserves	**1.7**	1.7	1.8	1.8	1.9
Contingent resources	**1.9**	1.9	1.9	2.0	1.8
Prospective resources	**0.6**	0.6	0.6	0.6	0.7
Operating Netback ($/bbl)					
Realized SCO selling price	**99.55**	91.90	101.20	80.53	69.47
Operating expenses	**41.75**	38.91	38.80	35.42	35.29
Crown royalties	**4.85**	5.21	7.93	7.80	6.06
Netback price	**52.95**	47.78	54.47	37.31	28.12
Financial Ratios					
Net debt-to-cash flow from operations (times)[5]	**0.6**	0.2	0.2	1.0	1.4
Net debt-to-total net capitalization (%)[4]	**14**	5	9	24	21
Return on average productive capital employed (%)[5,6]	**18**	20	25	25	7
Return on average shareholders' equity (%)[5]	**18**	22	29	33	11
Trading Data					
Share price high	**21.93**	25.19	33.94	33.05	39.89
Share price low	**18.62**	18.21	18.17	24.24	16.65
Share price close	**19.98**	20.17	23.25	26.45	29.91
Trading volume (millions of shares)	**403.9**	402.1	567.1	412.7	416.0
Number of shares outstanding (in millions)	**484.6**	484.6	484.5	484.4	484.4
Volume					
COS average daily sales (bbls/d)[7]	**98,037**	105,680	106,015	107,280	103,129
COS total sales (mmbbls)[7]	**36**	39	39	39	38
Syncrude average daily production (bbls/d)	**267,022**	286,505	288,372	293,288	279,926
Syncrude total production (mmbbls)	**97.5**	104.9	105.3	107.0	102.2

1 Operating expense, net finance expense, tax expense, net income, net income per share, return on average productive capital employed and return on average shareholders' equity have been adjusted in 2012 to reflect the amendments to International Accounting Standard ("IAS") 19, *Employee Benefits*, which were adopted on January 1, 2013. Years prior to 2012 have not been adjusted.
2 Adjusted for International Financial Reporting Standards ("IFRS"). Note 26 to the 2011 annual audited consolidated financial statements discloses the impact of the transition to IFRS on the Corporation's reported financial position, income and cash flows.
3 Previously referred to as non-production expenses.
4 Additional GAAP measure as defined in the Additional GAAP and Non-GAAP Financial Measures Advisory.
5 Non-GAAP measure as defined in the Additional GAAP and Non-GAAP Financial Measures Advisory.
6 The calculation for this Non-GAAP measure was adjusted in 2013 and prior year amounts are restated to conform to the current year calculation.
7 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.

Board of Directors

DONALD J. LOWRY
Chairman of the Board
Edmonton, Alberta

IAN A. BOURNE[1,2]
Calgary, Alberta

GERALD W. GRANDEY[1,2]
Saskatoon, Saskatchewan

ARTHUR N. KORPACH[2,3]
Calgary, Alberta

RYAN M. KUBIK
Calgary, Alberta

SARAH E. RAISS[1]
Calgary, Alberta

JOHN K. READ[3]
Calgary, Alberta

BRANT G. SANGSTER[3]
Calgary, Alberta

C.E. (CHUCK) SHULTZ[3]
Calgary, Alberta

WESLEY R. TWISS[2,3]
Calgary, Alberta

JOHN B. ZAOZIRNY, Q.C.[1]
Calgary, Alberta

1 Member of the Corporate Governance and Compensation Committee
2 Member of the Audit Committee
3 Member of the Reserves, Marketing Operations and Environmental, Health and Safety Committee

Leadership Team

RYAN M. KUBIK
President and Chief Executive Officer

ROBERT P. DAWSON
Chief Financial Officer

ALLEN R. HAGERMAN
Executive Vice President

TRUDY M. CURRAN
Senior Vice President, General Counsel and Corporate Secretary

DARREN K. HARDY
Senior Vice President, Operations

SIREN FISEKCI
Vice President, Investor and Corporate Relations

ADRIENNE NICKERSON
Vice President, Operations

DAVID J. SIRRS
Vice President, Marketing

PHILIP D. BIRKBY
Controller

SCOTT W. ARNOLD
Director, Sustainability and External Relations

Ticker Symbols

Toronto Stock Exchange: COS
OTCQX: COSWF

Registrar and Transfer Agent

Computershare Trust Company of Canada, with offices in Vancouver, Calgary, Toronto and Montreal, is the registrar and Transfer Agent for Canadian Oil Sands Limited.

COMPUTERSHARE TRUST COMPANY OF CANADA
600, 530 – 8th Avenue S.W.
Calgary, Alberta T2P 3S8
Telephone: 1 (800) 564-6253
Fax: (403) 267-6598
Email: service@computershare.com

Auditors

PRICEWATERHOUSECOOPERS LLP CHARTERED ACCOUNTANTS
Calgary, Alberta

Independent Qualified Reserves Evaluators

GLJ PETROLEUM CONSULTANTS LTD.
Calgary, Alberta

Internal Auditors

DELOITTE & TOUCHE LLP
Calgary, Alberta

Canadian Oil Sands Limited

2000 First Canadian Centre
350 – 7th Avenue S.W.
Calgary, Alberta T2P 3N9
Telephone: (403) 218-6200
Fax: (403) 218-6201

Investor and Media Contacts

SIREN FISEKCI
Vice President, Investor and Corporate Relations

SCOTT W. ARNOLD
Director, Sustainability and External Relations

Telephone: (403) 218-6220
Email: invest@cdnoilsands.com

Notice of Meeting

Canadian Oil Sands' 2014 Annual General Meeting will be held in the Metropolitan Conference Centre, The Ballroom, 333 – 4th Avenue S.W., Calgary, Alberta on Wednesday, April 30, 2014 at 2:30 pm (MST). All shareholders are invited to attend, and those unable to do so are requested to sign and return the form of proxy to ensure representation at the meeting. The meeting will be webcast on our website at www.cdnoilsands.com.

For additional information about Canadian Oil Sands, or for an on-line version of this report, please visit our website at www.cdnoilsands.com.

DESIGN: CRAIB DESIGN AND COMMUNICATIONS WWW.CRAIB.COM

Canadian Oil Sands

Why Invest in COS?

Superior Quality

With large, bitumen-rich leases located in the sweet spot of the Athabasca oil sands deposit and a fully integrated upgrading facility that produces 100% light, sweet crude oil, the quality of our Syncrude asset is exceptional.

Experienced

Syncrude is an experienced oil sands operator, producing a high-quality crude oil for over 35 years. Its track record is bolstered by the expertise of Imperial Oil and ExxonMobil to support industry-leading operational performance and project expansion into the future.

Dependable

Syncrude's high-quality crude oil resource provides a solid, long-life cash generating asset base. Canadian Oil Sands strives to protect the long-term value of our Syncrude asset through efficient capital management and a strong balance sheet.

Innovative

Syncrude is committed to a world-class research and development program and active collaboration with third parties. Syncrude has invented many of the technologies that are now standard in the industry. That focus on innovation will enable Syncrude to evolve new and better ways to produce oil from the sands while developing and sharing technologies to create environmental solutions.

Essential

Crude oil will continue to be a major source of energy for the world, fueling global progress and prosperity for decades into the future. Canada's oil sands are a significant, growing and secure source of supply. Syncrude has a vast resource base in the heart of the oil sands deposit and a history of investing in the technologies to develop the oil sands responsibly.

www.cdnoilsands.com