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 recommends approval of the interim financial statements and the audited annual financial statements to the Board of Directors. Quarterly, the Board of Directors reviews and approves the interim unaudited financial statements. Annually, the Board of Directors reviews and approves Canadian Oil Sands' audited 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, 2014 using criteria established in the *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. Based on this evaluation, management concluded that Canadian Oil Sands' internal control over financial reporting was effective as of December 31, 2014.

PricewaterhouseCoopers LLP, our external auditors, has audited the effectiveness of Canadian Oil Sands' internal control over financial reporting as of December 31, 2014 as stated in their report which appears herein.

(signed) **Ryan M. Kubik**
President and Chief Executive Officer
February 24, 2015

(signed) **Robert P. Dawson**
Chief Financial Officer
February 24, 2015

February 24, 2015

Independent Auditor's Report

To the Shareholders of
Canadian Oil Sands Limited

We have completed integrated audits of Canadian Oil Sands Limited's 2014 and 2013 consolidated financial statements and its internal control over financial reporting as at December 31, 2014. 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, 2014 and 2013 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, 2014 and 2013 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, 2014, based on criteria established in Internal Control - Integrated Framework (2013), 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, 2014, based on criteria established in Internal Control - Integrated Framework (2013) issued by COSO.

(signed) **PricewaterhouseCoopers LLP**
Chartered Accountants
Calgary, Alberta
February 24, 2015

Consolidated Statements of Income and Comprehensive Income

For the years ended December 31 *(millions of Canadian dollars, except per Share and Share volume amounts)*		**2014**		**2013**
Sales	**$**	**3,912**	$	4,208
Crown royalties		**(221)**		(174)
Revenues	**$**	**3,691**	$	4,034
Expenses				
Operating	**$**	**1,686**	$	1,494
Development		**150**		133
Crude oil purchases and transportation		**493**		643
Administration		**25**		30
Insurance		**11**		11
Depreciation and depletion (Note 6)		**514**		478
	$	**2,879**	$	2,789
Earnings from operating activities	**$**	**812**	$	1,245
Foreign exchange loss (Note 15)		**134**		88
Net finance expense (Note 16)		**47**		44
Earnings before taxes	**$**	**631**	$	1,113
Tax expense (Note 8)		**171**		279
Net income	**$**	**460**	$	834
Other comprehensive income (loss), net of taxes				
Items not reclassified to net income:				
Re-measurements of employee future benefit plans (Note 9)		**(17)**		61
Items reclassified to net income:				
Derivative gains		**(3)**		(3)
Comprehensive income	**$**	**440**	$	892
Weighted average Shares (millions)		**485**		485
Shares, end of year (millions)		**485**		485
Net income per Share (Note 13)				
Basic and diluted	**$**	**0.95**	$	1.72

See Notes to Consolidated Financial Statements

Consolidated Statements of Shareholders' Equity

For the years ended December 31 *(millions of Canadian dollars)*	2014	2013
Retained earnings		
Balance, beginning of year	**$ 2,040**	$ 1,823
Net income	**460**	834
Re-measurements of employee future benefit plans	**(17)**	61
Dividends	**(678)**	(678)
Balance, end of year	**$ 1,805**	$ 2,040
Accumulated other comprehensive income		
Balance, beginning of year	**$ 6**	$ 9
Reclassification of derivative gains to net income	**(3)**	(3)
Balance, end of year	**$ 3**	$ 6
Shareholders' capital		
Balance, beginning of year	**$ 2,674**	$ 2,673
Issuance of shares	**1**	1
Balance, end of year	**$ 2,675**	$ 2,674
Contributed surplus		
Balance, beginning of year	**$ 12**	$ 10
Share-based compensation	**2**	2
Balance, end of year	**14**	12
Total Shareholders' equity	**$ 4,497**	$ 4,732

See Notes to Consolidated Financial Statements

Consolidated Balance Sheets

As at December 31 *(millions of Canadian dollars)*	2014	2013
Assets		
Current assets		
Cash and cash equivalents	**$ 33**	$ 806
Accounts receivable	**185**	369
Inventories (Note 5)	**188**	163
Current taxes (Note 8)	**17**	—
Prepaid expenses	**9**	8
	$ 432	$ 1,346
Property, plant and equipment, net (Note 6)	**9,441**	8,712
Exploration and evaluation	**54**	54
Reclamation trust (Note 11)	**87**	78
	$ 10,014	$ 10,190
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities (Note 7)	**$ 487**	$ 786
Current taxes (Note 8)	**—**	259
Current portion of employee future benefits (Note 9)	**20**	82
	$ 507	$ 1,127
Deferred taxes (Note 8)	**1,527**	1,535
Employee future benefits (Note 9)	**318**	226
Long-term debt (Note 10)	**1,889**	1,602
Asset retirement obligation (Note 11)	**1,201**	868
Other liabilities (Note 12)	**75**	100
	$ 5,517	$ 5,458
Shareholders' equity (Note 13)	**4,497**	4,732
	$ 10,014	$ 10,190

Commitments, Contingencies and Guarantees (Notes 20, 21 and 22, 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)*	2014	2013
Cash from (used in) operating activities		
Net income	**$ 460**	$ 834
Adjustments to reconcile net income to cash flow from operations:		
Depreciation and depletion	**514**	478
Accretion of asset retirement obligation (Note 11)	**28**	26
Foreign exchange loss on long-term debt (Note 15)	**145**	115
Deferred taxes (Note 8)	**(1)**	(18)
Share-based compensation	**(2)**	5
Reclamation expenditures (Note 11)	**(18)**	(42)
Change in employee future benefits and other	**(20)**	(51)
Cash flow from operations	**$ 1,106**	$ 1,347
Change in non-cash working capital (Note 23)	**(361)**	236
Cash from operating activities	**$ 745**	$ 1,583
Cash from (used in) financing activities		
Drawdown of bank credit facilities (Note 10)	**$ 140**	$ —
Repayment of senior notes (Note 10)	**—**	(310)
Issuance of shares (Note 13)	**1**	—
Dividends	**(678)**	(678)
Cash used in financing activities	**$ (537)**	$ (988)
Cash from (used in) investing activities		
Capital expenditures	**$ (930)**	$ (1,342)
Reclamation trust funding	**(9)**	(9)
Change in non-cash working capital (Note 23)	**(42)**	(2)
Cash used in investing activities	**$ (981)**	$ (1,353)
Foreign exchange gain on cash and cash equivalents held in foreign currency	**$ —**	$ 11
Decrease in cash and cash equivalents	**$ (773)**	$ (747)
Cash and cash equivalents, beginning of year	**806**	1,553
Cash and cash equivalents, end of year	**$ 33**	$ 806
Cash and cash equivalents consist of:		
Cash	**$ 33**	$ 639
Short-term investments	**—**	167
	$ 33	$ 806

Supplementary Information (Note 23)

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

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

2) Basis of Presentation

These 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 Chartered Professional Accountants of Canada Handbook and in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and effective on February 24, 2015.

These audited consolidated financial statements were approved by the Corporation's Board of Directors and authorized for issue on February 24, 2015.

3) 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") assets 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 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 enacted or substantively enacted tax rates.

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 share 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) 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, the mine development plans 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 9.

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 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 Syncrude is under joint control. 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.

5) Inventories

As at December 31 *($ millions)*	2014	2013
Materials and supplies	$ 130	$ 120
Products	58	43
	$ 188	$ 163

6) Property, Plant and Equipment, Net

	Year ended December 31, 2014								
($ millions)	Upgrading and Extracting	Mining Equipment	Vehicles and Equipment	Buildings	Asset Retirement Costs	Major Turnaround Costs	Construction in Progress	Mine Development	Total
Cost									
Opening balance	$ 5,508	$ 1,941	$ 695	$ 345	$ 851	$ 174	$ 1,647	$ 678	$ 11,839
Additions	—	—	23	—	—	71	836	—	930
Change in asset retirement costs	—	—	—	—	313	—	—	—	313
Retirements	(22)	(122)	(26)	—	—	(43)	—	(13)	(226)
Reclassifications[1]	156	1,546	—	20	—	—	(1,686)	(36)	—
Ending balance	$ 5,642	$ 3,365	$ 692	$ 365	$ 1,164	$ 202	$ 797	$ 629	$ 12,856
Accumulated depreciation									
Opening balance	$ 1,626	$ 601	$ 349	$ 115	$ 223	$ 86	$ —	$ 127	$ 3,127
Depreciation	192	140	51	9	39	67	—	16	514
Retirements	(22)	(122)	(26)	—	—	(43)	—	(13)	(226)
Ending balance	$ 1,796	$ 619	$ 374	$ 124	$ 262	$ 110	$ —	$ 130	$ 3,415
Net book value at December 31, 2014	**$ 3,846**	**$ 2,746**	**$ 318**	**$ 241**	**$ 902**	**$ 92**	**$ 797**	**$ 499**	**$ 9,441**

[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.*

	Year ended December 31, 2013								
($ millions)	Upgrading and Extracting	Mining Equipment	Vehicles and Equipment	Buildings	Asset Retirement Costs	Major Turnaround Costs	Construction in Progress	Mine Development	Total
Cost									
Opening balance	$ 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	—
Ending balance	$ 5,508	$ 1,941	$ 695	$ 345	$ 851	$ 174	$ 1,647	$ 678	$ 11,839
Accumulated depreciation									
Opening balance	$ 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)
Ending balance	$ 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**

[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.*

In 2014, interest costs of $111 million were capitalized and included in property, plant and equipment (2013 – $107 million) based on an interest capitalization rate of 6.6 per cent. (2013 - 6.5 per cent)

The Mildred Lake Mine Train Replacement ("MLMR") project was completed by Syncrude in late 2014 resulting in a transfer from Construction in Progress to the appropriate categories of depreciable assets of $1.5 billion, including $162 million of capitalized interest. It is estimated that the additional depreciable assets will increase the annual depreciation and depletion expense by approximately $70 million beginning in 2015.

In early 2015, Canadian Oil Sands performed a review of the estimated useful lives of its mining assets and determined that an increase in the estimated useful life of certain mining assets is required. This will result in an estimated decrease in the annual depreciation and depletion expense of approximately $34 million.

7) Accounts Payable and Accrued Liabilities

As at December 31 *($ millions)*	2014	2013
Trade payables	**$ 378**	$ 491
Crown royalties	**132**	334
Current portion of asset retirement obligation	**18**	28
Interest payable	**25**	23
	$ 553	$ 876
Less non-current portion of Crown royalties	**(66)**	(90)
Accounts payable and accrued liabilities	**$ 487**	$ 786

8) 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)*		**2014**		**2013**
Earnings before taxes	**$**	**631**	$	1,113
Statutory income tax rates				
Canadian basic federal income tax rate		**25 %**		25 %
Canadian federal abatement		**(10)%**		(10)%
Alberta provincial income tax rate		**10 %**		10 %
		25 %		25 %
Expected taxes at statutory rate		**158**		278
Add (deduct) the tax effect of:				
Non-taxable portion of capital losses		**18**		13
Adjustments for prior years and other		**(5)**		(12)
Tax expense	**$**	**171**	$	279

Tax expense is comprised of the following:

For the years ended December 31 *($ millions)*		**2014**		**2013**
Current tax expense	**$**	**172**	$	297
Deferred tax expense		**(1)**		(18)
	$	**171**	$	279

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 December 31 *($millions)*		**2014**		**2013**
Deferred tax assets (liabilities):				
Property, plant and equipment in excess of tax value	**$**	**(1,813)**	$	(1,658)
Partnership earnings[1]		**(98)**		(162)
Liabilities in excess of tax value[2]		**384**		285
Net deferred tax liability[3]	**$**	**(1,527)**	$	(1,535)

[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 deferred tax liability includes $76 million related to temporary differences that are expected to reverse in 2015.*

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

As at December 31 *($ millions)*		2014
Undepreciated Capital Costs[1]	$	2,216
Canadian Development Expenses		15
Other		9
	$	2,240
Taxable income generated through a partnership on which taxes are payable in future periods[2]		(373)
Estimated balances available for deduction against future taxable income	$	1,867

[1] *Approximately 75 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, 2014.*

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

9) 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 2014 and was as of December 31, 2013. The next actuarial valuation will be completed during 2015 and will be as of December 31, 2014.

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)	**2014**	2013	**2014**	2013	**2014**	2013
Accrued benefit obligation						
Balance, beginning of year	**$ 1,012**	$ 997	**$ 60**	$ 60	**$ 1,072**	$ 1,057
Current service cost	**41**	44	**1**	1	**42**	45
Estimated interest expense[1]	**46**	40	**3**	2	**49**	42
Re-measurements:						
(Gain) loss from change in demographic assumptions[2]	**(1)**	52	**(1)**	3	**(2)**	55
(Gain) loss from change in financial assumptions[3]	**97**	(87)	**3**	(4)	**100**	(91)
Employee contributions	**3**	6	**—**	—	**3**	6
Benefits paid	**(40)**	(40)	**(2)**	(2)	**(42)**	(42)
Balance, end of year	**$ 1,158**	$ 1,012	**$ 64**	$ 60	**$ 1,222**	$ 1,072
Fair value of plan assets						
Balance, beginning of year	**$ 764**	$ 619	**$ —**	$ —	**$ 764**	$ 619
Estimated interest income[1]	**35**	26	**—**	—	**35**	26
Re-measurements:						
Return on plan assets[4]	**76**	46	**—**	—	**76**	46
Employer contributions	**42**	106	**—**	—	**42**	106
Employee contributions	**3**	6	**—**	—	**3**	6
Benefits paid	**(36)**	(39)	**—**	—	**(36)**	(39)
Balance, end of year	**$ 884**	$ 764	**$ —**	$ —	**$ 884**	$ 764
Accrued benefit liability	**$ (274)**	$ (248)	**$ (64)**	$ (60)	**$ (338)**	$ (308)
Current portion	**$ (17)**	$ (80)	**$ (3)**	$ (2)	**$ (20)**	$ (82)
Non-current portion	**$ (257)**	$ (168)	**$ (61)**	$ (58)	**$ (318)**	$ (226)

[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 accrued benefit obligation is 22 years for the pension plan and 15 years for the other post-employment benefit plans.

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)*	**2014**	2013	**2014**	2013	**2014**	2013
Operating expenses[1]	**$ 41**	$ 44	**$ 1**	$ 1	**$ 42**	$ 45
Net finance expense[2]	**11**	14	**3**	2	**14**	16
Recognized in net income	**$ 52**	$ 58	**$ 4**	$ 3	**$ 56**	$ 61
Re-measurements	**$ 20**	$ (81)	**$ 2**	$ (1)	**$ 22**	$ (82)
Tax on re-measurements	**(5)**	21	**—**	—	**(5)**	21
Recognized in other comprehensive income	**$ 15**	$ (60)	**$ 2**	$ (1)	**$ 17**	$ (61)

[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)*	**2014**	2013	**2014**	2013	**2014**	2013
Accrued benefit obligation arising from:						
Unfunded plans	**$ 56**	$ 52	**$ 64**	$ 60	**$ 120**	$ 112
Partly funded plans	**1,102**	960	**—**	—	**1,102**	960
	$ 1,158	$ 1,012	**$ 64**	$ 60	**$ 1,222**	$ 1,072

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

	Percentage of Plan assets	
As at December 31	**2014**	2013
Equity securities[1]	**59**	60
Debt securities[2]	**41**	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	**2014**	2013	**2014**	2013
Discount rate applied to accrued benefit liability	**4.00%**	4.50%	**4.00%**	4.50%
Rate of compensation increase	**2.92%**	3.17%	**2.92%**	3.17%
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**	**87**	**87**	**87**
Female	**90**	**89**	**90**	**89**

[1] *Seven per cent annual rate of increase assumed for 2013 through 2016 decreasing by 0.5 per cent each year thereafter to a five per cent ultimate rate in 2020.*

Sensitivity Analysis

A one per cent decrease in the interest rate used to discount future benefit payments would result in a $232 million increase in Canadian Oil Sands' accrued benefit liability, a $14 million increase in 2014 current service costs and a $3 million decrease in the 2014 interest expense. A one per cent increase in the interest rate would result in a $178 million decrease in Canadian Oil Sands' accrued benefit liability, a $10 million decrease in 2014 current service costs and a $2 million increase in the 2014 interest expense.

A one per cent increase in the assumed salary scale would result in a $52 million increase in Canadian Oil Sands' accrued benefit liability, a $5 million increase in 2014 current service costs and a $2 million increase in the 2014 interest expense. A one per cent decrease in the salary scale would result in a $45 million decrease in Canadian Oil Sands' accrued benefit liability, a $4 million decrease in 2014 current service costs and a $2 million decrease in the 2014 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 $5 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 $26 million.

b) Defined Contribution Plans

Canadian Oil Sands' share of Syncrude Canada's defined contribution pension plan expense was approximately $3 million in 2014 (2013 - $3 million).

c) Cash Payments

Canadian Oil Sands' share of Syncrude's total cash payments for employee future benefits for 2014 was $51 million (2013 - $112 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 2015 cash payments to fund the defined benefit plans is $43 million, including $15 million for Canadian Oil Sands' share of solvency funding requirements. The actuarial valuation completed in 2014 requires Syncrude Canada to fund a pension plan solvency deficiency, Canadian Oil Sands' share of which is $68 million due over the next 11 years.

10) Long-term Debt and Credit Facilities

Outstanding long-term debt

As at December 31 *($millions)*	2014	2013
7.75% Senior Notes due May 15, 2019 (U.S. $500 million) (a)	**$ 577**	$ 529
7.9% Senior Notes due September 1, 2021 (U.S. $250 million) (b)	**287**	262
4.5% Senior Notes due April 1, 2022 (U.S. $400 million) (c)	**458**	420
8.2% Senior Notes due April 1, 2027 (U.S. $73.95 million) (d)	**84**	77
6.0% Senior Notes due April 1, 2042 (U.S. $300 million) (e)	**343**	314
Credit facilities drawn, excluding letters of credit	**140**	—
	$ 1,889	$ 1,602

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) 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.

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 long-term debt-to-total capitalization at an amount less than 55 per cent.

c) 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.

d) 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.

e) 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.

Future Payments

Canadian Oil Sands is required to make the following principal and interest payments on Senior Notes:

2015	$ 117
2016-2017	233
2018-2019	785
After 2019	1,789
	$ 2,924

Credit facilities

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

As at December 31 *($ millions)*	2014
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 30, 2018. 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, 2014, $140 million was drawn against this facility ($nil at December 31, 2013).

b) Extendible Revolving Term Facility

The $40 million extendible revolving term facility is a two year facility expiring June 30, 2016. 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, 2014, no amounts were drawn against this facility (no amounts were drawn against the facility at December 31, 2013).

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, 2014 (December 31, 2013 - $75 million).

11) 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 2.25 per cent at December 31, 2014 (December 31, 2013 – 3.25 per cent) in deriving the asset retirement obligation.

($ millions)	**December 31 2014**	**December 31 2013**
Asset retirement obligation, beginning of year	**$ 896**	$ 1,102
(Increase) decrease in risk-free interest rate	**224**	(217)
Reclamation expenditures	**(18)**	(42)
Increase in estimated reclamation and closure expenditures	**89**	27
Accretion expense	**28**	26
Asset retirement obligation, end of year	**$ 1,219**	$ 896
Less current portion	**(18)**	(28)
Non-current portion	**$ 1,201**	$ 868

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 $18 million current portion of the asset retirement obligation is included in accounts payable and accrued liabilities, while the $1,201 million non-current portion is presented separately as an asset retirement obligation on the December 31, 2014 Consolidated Balance Sheet. The total undiscounted estimated cash flows required to settle Canadian Oil Sands' share of the asset retirement obligation were $2,375 million at December 31, 2014 (December 31, 2013 - $2,160 million).

A review of the estimated reclamation and closure expenditures is performed annually. In 2014, the review resulted in an $89 million increase to the asset retirement obligation, reflecting the planned extension of a mine site and higher estimated costs for material movement.

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, 2014, the balance of the reclamation trust, including interest earned on investments, was $87 million (December 31, 2013 - $78 million).

Additionally, Canadian Oil Sands has posted letters of credit with the Province of Alberta in the amount of $75 million (December 31, 2013 - $75 million) to secure its pro rata share of the reclamation and closure obligations of the Syncrude owners.

12) Other Liabilities

As at ($ millions)	December 31 2014	December 31 2013
Non-current portion of Crown royalties[1]	**$ 66**	$ 90
Other	**9**	10
Other liabilities	**$ 75**	$ 100

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

13) 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, 2013	484.56	$ 2,673
Issued under share-based compensation plans	0.01	1
Shareholders' capital, December 31, 2013	484.57	2,674
Issued under share-based compensation plans	0.04	1
Shareholders' capital, December 31, 2014	484.61	2,675

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)*	2014	2013
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 (2013 - $678 million) or $1.40 per Share (2013 - $1.40 per Share). On January 29, 2015, the Corporation declared a quarterly dividend of $0.05 per Share for a total dividend of $24 million. The dividend will be paid on February 27, 2015 to Shareholders of record on February 20, 2015.

14) 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 2014 and 2013:

($ millions, except unit amounts)	Options (a)	PSUs (b)	RSUs (c)	DSUs (d)	Syncrude RSUs (e)	Syncrude PSUs *(f)*	Total
2014							
Units outstanding at December 31	**3,852,403**	**314,094**	**36,996**	**137,138**	**968,426**	**1,599,704**	
Expense recognized during the year	**$ 2**	**$ (1)**	**$ —**	**$ —**	**$ 4**	**$ (4)**	**$ 1**
Liability recognized at December 31	**n/a**	**$ 1**	**$ —**	**$ 1**	**$ 10**	**$ 1**	**$ 13**
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

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, 2014	**2,975,896**	**282,638**	**30,640**	**91,194**	**796,777**	**1,833,768**
Granted during 2014	**1,098,536**	**105,785**	**18,896**	**45,944**	**381,859**	**—**
Redeemed during 2014	**(33,458)**	**(74,329)**	**(7,560)**	**—**	**(180,271)**	**(233,116)**
Forfeited during 2014	**(188,571)**	**—**	**(4,980)**	**—**	**(29,939)**	**(948)**
Outstanding at December 31, 2014[1]	**3,852,403**	**314,094**	**36,996**	**137,138**	**968,426**	**1,599,704**
Less unvested at December 31, 2014	**(1,874,358)**	**(314,094)**	**(36,996)**	**—**	**(968,426)**	**(192,367)**
Vested at December 31, 2014	**1,978,045**	**—**	**—**	**137,138**	**—**	**1,407,337**
Unvested awards scheduled to vest during:						
2015	**824,164**	**89,476**	**9,944**	**—**	**279,105**	**192,367**
2016	**684,010**	**118,833**	**11,750**	**—**	**345,759**	**—**
2017	**366,184**	**105,785**	**15,302**	**—**	**343,562**	**—**
	1,874,358	**314,094**	**36,996**	**—**	**968,426**	**192,367**

[1] *The weighted-average exercise price of options outstanding at December 31, 2014 was $23.44 and the weighted-average remaining life of options outstanding at December 31, 2014 was 4 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 2014 were as follows:

	2014
Weighted-average exercise price ($)	**20.01**
Assumed interest rate (%)	**1.55**
Assumed life (years)	**5**
Assumed volatility (%)	**27**
Assumed dividend yield (%)	**7.00**
Weighted-average grant-date fair value ($/option)	**2.02**

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.

15) Foreign Exchange

For the years ended December 31 *($ millions)*	2014	2013
Foreign exchange loss – long-term debt	**$ 145**	$ 115
Foreign exchange gain – other	**(11)**	(27)
Total foreign exchange loss	**$ 134**	$ 88

16) Net Finance Expense

For the years ended December 31 *($ millions)*	2014	2013
Interest costs on long-term debt	**$ 119**	$ 123
Less capitalized interest on long-term debt	**(111)**	(107)
Interest expense on long-term debt	**$ 8**	$ 16
Interest expense on employee future benefits	**14**	16
Accretion of asset retirement obligation	**28**	26
Interest income	**(3)**	(14)
Net finance expense	**47**	44

17) 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, 2014 and December 31, 2013 was as follows:

As at *($ millions, except % amounts)*	December 31 2014	December 31 2013
Long-term debt[1]	**$ 1,889**	$ 1,602
Cash and cash equivalents[1]	**(33)**	(806)
Net debt[2,3]	**$ 1,856**	$ 796
Shareholders' equity[1]	**$ 4,497**	$ 4,732
Total net capitalization[2,4]	**$ 6,353**	$ 5,528
Total capitalization[2,5]	**$ 6,386**	$ 6,334
Net debt-to-total net capitalization[2,6] (%)	**29**	14
Long-term debt-to-total capitalization[2,7] (%)	**30**	25

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

The Corporation's objectives for managing capital are to:

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

Net debt rose to $1,856 million in 2014 from $796 million in 2013 concurrent with higher spending on major capital projects over the last two years. In addition, a weakening Canadian dollar over the same period increased the Canadian dollar equivalent value of long-term debt. As a result, net debt-to-total net capitalization increased to 29 per cent at December 31, 2014 from 14 per cent at December 31, 2013.

In August 2013, Canadian Oil Sands repaid U.S. $300 million of Senior Notes upon maturity.

In July 2014, Canadian Oil Sands extended the terms of its credit facilities. The $1.5 billion credit facility was extended to June 30, 2018 and the $40 million credit facility to June 30, 2016. As at December 31, 2014, $140 million was drawn against these facilities (December 31, 2013 and December 31, 2012 - $nil).

Shareholders' equity decreased to $4,497 million at December 31, 2014 from $4,732 million at December 31, 2013, as dividends exceeded comprehensive income during the year.

The Corporation reduced its quarterly dividend to $0.05 per Share for the first quarter of 2015 from $0.35 per Share to better align with current oil prices and to preserve balance sheet strength in the short and medium term.

Canadian Oil Sands Senior Notes indentures and credit facility agreements contain certain covenants that restrict Canadian Oil Sands' ability to sell all or substantially all of its assets or change the nature of its business, and limit long-term debt-to-total capitalization to 55 per cent. With a long-term debt-to-total capitalization of 30 per cent at December 31, 2014, a significant increase in debt or decrease in equity would be required to negatively impact the Corporation's financial flexibility.

18) 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 of the Corporation's financial instruments and their related categories at December 31, 2014 and 2013 were as follows:

As at December 31 *($ millions)*	2014	2013
Financial Assets		
Loans and receivables		
Cash and cash equivalents	**$ 33**	$ 806
Accounts receivable	**185**	369
Reclamation trust	**87**	78
	$ 305	$ 1,253
Financial Liabilities		
Other liabilities		
Accounts payable and accrued liabilities[1]	**$ 474**	$ 760
Long-term debt	**1,889**	1,602
	$ 2,363	$ 2,362

[1] *Excludes current portion of asset retirement obligation and other non-financial instruments.*

Offsetting Financial Assets and Financial Liabilities
The carrying values of accounts receivable and accounts payable and accrued liabilities have each been reduced by $52 million ($49 million at December 31, 2013) as a result of netting agreements with counterparties.

Fair Values
The fair values of cash and cash equivalents, accounts receivable, reclamation trust investments, accounts payable and accrued liabilities, and amounts drawn on the credit facility recorded as long-term debt 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 December 31 *($ millions)*	2014	2013
7.75% Senior Notes due May 15, 2019 (U.S. $500 million)	**$ 626**	$ 636
7.9% Senior Notes due September 1, 2021 (U.S. $250 million)	**314**	321
4.5% Senior Notes due April 1, 2022 (U.S. $400 million)	**433**	425
8.2% Senior Notes due April 1, 2027 (U.S. $73.95 million)	**96**	95
6.0% Senior Notes due April 1, 2042 (U.S. $300 million)	**313**	323
	$ 1,782	$ 1,800

Financial Risks

a) Foreign Currency Risk
Canadian Oil Sands' results are affected by fluctuations in the U.S./Canadian currency exchange rates as our sales are based in part on a WTI benchmark price in U.S. dollars, while operating expenses and capital expenditures are primarily in Canadian dollars. During 2014 and 2013, the U.S. to Canadian dollar exchange rate has ranged from a low of $0.86 U.S./Cdn to a high of $1.02 U.S./Cdn. Our sales exposure is partially offset by our U.S. dollar crude oil purchases, our share of Syncrude's U.S. dollar operating and capital costs, interest costs on U.S. dollar denominated long-term debt and, in periods when our U.S. dollar denominated long-term debt matures, the principal repayments.

Canadian Oil Sands prefers to remain unhedged on foreign currency and did not have any foreign currency hedges in place in 2014 or 2013; however, the Corporation may hedge foreign currency rates in the future depending on the business environment and growth opportunities.

As at December 31, 2014, portions of Canadian Oil Sands' cash and cash equivalents, accounts receivable, accounts payable and long-term debt were denominated in U.S. dollars. Based on these U.S. dollar closing balances, 2014 net income and

comprehensive income would have increased/decreased by approximately $20 million (2013 - $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 Senior Note maturity is in 2019 and, at December 31, 2014, $140 million was drawn on the credit facilities. The interest rate the Corporation pays on its long-term debt is also impacted by its credit ratings.

Changes in interest rates also impact the Corporation's short-term investments, which are continually reinvested with maturities of less than 90 days, our obligation for employee future benefits and our asset retirement obligation. 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 of our employee future benefits. Interest rates also impact the carrying value of the asset retirement obligation and the related accretion and depreciation and depletion expenses.

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) Credit Risk

Canadian Oil Sands is exposed to credit risk primarily through customer accounts 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 $185 million at December 31, 2014, all of which were paid in January 2015. Substantially all accounts receivable are due from investment grade energy producers, financial institutions, and refinery-based customers, and our cash and cash equivalents are 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.

d) Liquidity Risk

Liquidity risk is the risk that Canadian Oil Sands will not be able to meet its financial obligations as they become due and is impacted by: the amount and timing of operating commitments, future capital expenditure requirements and debt repayments as well as the adequacy of financing available through bank credit facilities or debt and equity capital markets. In addition, a downgrade in the Corporation's credit ratings may impact the cost of and our ability to access financing, and may require the Corporation to provide financial security under certain transportation and storage contracts.

The ability to make scheduled payments on or to refinance debt obligations depends on the financial condition and operating performance of the Corporation, which is subject to prevailing economic and competitive conditions and to certain financial, business and other factors beyond its control. Volatility in the credit markets may increase costs associated with debt instruments due to increased spreads over relevant interest rate benchmarks, or affect the Corporation's, or third parties that the Corporation seeks to do business with, ability to access those markets. The Corporation may be unable to maintain a level of cash flow from operations sufficient to permit it to pay the principal, premium, if any, and interest on its indebtedness. In addition, there may be volatility in the capital markets and access to financing, although currently available, can be uncertain. These conditions could have an adverse effect on the industry in which the Corporation operates and its business, including future operating and financial results.

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, maintains a prudent capital structure and is in compliance with its debt covenants.

19) 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 2014 and 2013:

($ millions)	**2014**	**2013**
Expense for the year		
Short-term benefits expense[1]	**$ 4**	$ 7
Share-based compensation expense	**2**	5
	$ 6	$ 12
Liability recorded at December 31[2]	**$ 3**	$ 6

[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.*

20) 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 credit facilities, if required, 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	2015	2016 to 2017	2018 to 2019	After 2019
Pipeline and storage (a)	$ 2,294	$ 67	$ 129	$ 173	$ 1,925
Other (b)	322	163	87	25	47
	$ 2,616	$ 230	$ 216	$ 198	$ 1,972

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 24 years.

b) Other

Other commitments primarily include Canadian Oil Sands' 36.74 per cent share of Syncrude's commitments for:

- natural gas and diesel deliveries in 2015 at floating market prices;
- tire purchases for 2015 through 2024;
- camp accommodations for 2015 through 2017; and
- capital expenditures in 2015.

21) 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.

22) 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 11). 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.

23) Supplementary Information

a) Change in Non-Cash Working Capital

For the years ended December 31 *($ millions)*	2014	2013
Operating activities:		
Accounts receivable	**$ 184**	$ (58)
Inventories	**(25)**	(26)
Prepaid expenses	**(1)**	1
Accounts payable and accrued liabilities ("AP")	**(299)**	82
Current taxes	**(276)**	219
Other	**14**	16
AP changes reclassified to investing activities	**42**	2
Change in operating non-cash working capital	**$ (361)**	$ 236
Investing activities:		
Accounts payable and accrued liabilities	**$ (42)**	$ (2)
Change in investing non-cash working capital	**$ (42)**	$ (2)
Change in total non-cash working capital	**$ (403)**	$ 234

b) Income Taxes and Interest Paid

For the years ended December 31 *($ millions)*	2014	2013
Income taxes paid	**$ 449**	$ 77
Interest paid	**$ 117**	$ 126

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, 2014, the Corporation had two customers (2013 - three) which individually accounted for more than 10 per cent of consolidated sales. Sales to these customers in 2014 were approximately $1,083 million (2013 - $1,495 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)*	2014	2013
Canada	**$ 3,492**	$ 3,715
United States	**420**	493
Total Sales[1]	**$ 3,912**	$ 4,208

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

e) Cash Flow from Operations per Share

For the years ended December 31 *($ millions)*	2014	2013
Cash flow from operations per Share, basic and diluted	**$ 2.28**	$ 2.78

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

24) Accounting Pronouncements Not Yet Adopted

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers,* which replaced several revenue recognition standards previously issued by the IASB. The new standard establishes principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. Application of the standard is mandatory for years beginning on or after January 1, 2017 with earlier application permitted. Canadian Oil Sands continues to assess the impact of this new standard.

Canadian Oil Sands Limited
Ryan Kubik
President & Chief Executive Officer

Shares Listed - Symbol: COS
Toronto Stock Exchange

For further information:
Siren Fisekci
Vice President, Investor & Corporate Relations
(403) 218-6228

Scott Arnold
Director, Investor & Corporate Relations
(403) 218-6206

Canadian Oil Sands Limited
2000 First Canadian Centre
350 - 7 Avenue S.W.
Calgary, Alberta T2P 3N9
Ph: (403) 218-6200
Fax: (403) 218-6201

invest@cdnoilsands.com

web site: **www.cdnoilsands.com**