

Consolidated Statements of Income and Comprehensive Income

(unaudited)

	Three Months Ended December 31		Year Ended December 31	
(millions of Canadian dollars, except per Share and Share volume amounts)	2014	2013	2014	2013
Sales	\$ 894	\$ 1,048	\$ 3,912	\$ 4,208
Crown royalties	(60)	(52)	(221)	(174)
Revenues	\$ 834	\$ 996	\$ 3,691	\$ 4,034
Expenses				
Operating	\$ 438	\$ 388	\$ 1,686	\$ 1,494
Development	52	29	150	133
Crude oil purchases and transportation	85	103	493	643
Administration	2	6	25	30
Insurance	(1)	1	11	11
Depreciation and depletion	147	152	514	478
	\$ 723	\$ 679	\$ 2,879	\$ 2,789
Earnings from operating activities	\$ 111	\$ 317	\$ 812	\$ 1,245
Foreign exchange loss (Note 9)	56	46	134	88
Net finance expense (Note 10)	10	6	47	44
Earnings before taxes	\$ 45	\$ 265	\$ 631	\$ 1,113
Tax expense (Note 11)	20	73	171	279
Net income	\$ 25	\$ 192	\$ 460	\$ 834
Other comprehensive income (loss), net of taxes				
Items not reclassified to net income:				
Re-measurements of employee future benefit plans (Note 6)	(26)	(7)	(17)	61
Items reclassified to net income:				
Derivative gains	(1)	(1)	(3)	(3)
Comprehensive income (loss)	\$ (2)	\$ 184	\$ 440	\$ 892
Weighted average Shares (millions)	485	485	485	485
Shares, end of period (millions)	485	485	485	485
Net income per Share				
Basic and diluted	\$ 0.05	\$ 0.40	\$ 0.95	\$ 1.72

See Notes to Unaudited Consolidated Financial Statements

Consolidated Statements of Shareholders' Equity

(unaudited)

	Three Months Ended December 31		Year Ended December 31	
(millions of Canadian dollars)	2014	2013	2014	2013
Retained earnings				
Balance, beginning of period	\$ 1,975	\$ 2,024	\$ 2,040	\$ 1,823
Net income	25	192	460	834
Re-measurements of employee future benefit plans	(26)	(7)	(17)	61
Dividends	(169)	(169)	(678)	(678)
Balance, end of period	\$ 1,805	\$ 2,040	\$ 1,805	\$ 2,040
Accumulated other comprehensive income				
Balance, beginning of period	\$ 4	\$ 7	\$ 6	\$ 9
Reclassification of derivative gains to net income	(1)	(1)	(3)	(3)
Balance, end of period	\$ 3	\$ 6	\$ 3	\$ 6
Shareholders' capital				
Balance, beginning of period	\$ 2,675	\$ 2,674	\$ 2,674	\$ 2,673
Issuance of shares	—	—	1	1
Balance, end of period	\$ 2,675	\$ 2,674	\$ 2,675	\$ 2,674
Contributed surplus				
Balance, beginning of period	\$ 13	\$ 11	\$ 12	\$ 10
Share-based compensation	1	1	2	2
Balance, end of period	14	12	14	12
Total Shareholders' equity	\$ 4,497	\$ 4,732	\$ 4,497	\$ 4,732

See Notes to Unaudited Consolidated Financial Statements

Consolidated Balance Sheets

(unaudited)

As at (millions of Canadian dollars)	December 31 2014	December 31 2013
Assets		
Current assets		
Cash and cash equivalents	\$ 33	\$ 806
Accounts receivable	202	369
Inventories	188	163
Prepaid expenses	9	8
	\$ 432	\$ 1,346
Property, plant and equipment, net (Note 4)	9,441	8,712
Exploration and evaluation	54	54
Reclamation trust	87	78
	\$ 10,014	\$ 10,190
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities (Note 5)	\$ 487	\$ 786
Current portion of employee future benefits (Note 6)	20	82
Current taxes	—	259
	\$ 507	\$ 1,127
Long-term debt	1,889	1,602
Deferred taxes	1,527	1,535
Employee future benefits (Note 6)	318	226
Asset retirement obligation (Note 7)	1,201	868
Other liabilities (Note 8)	75	100
	\$ 5,517	\$ 5,458
Shareholders' equity	4,497	4,732
	\$ 10,014	\$ 10,190
Commitments (Note 14)		

See Notes to Unaudited Consolidated Financial Statements

Consolidated Statements of Cash Flows

(unaudited)

	Three Months Ended December 31		Year Ended December 31	
(millions of Canadian dollars)	2014	2013	2014	2013
Cash from (used in) operating activities				
Net income	\$ 25	\$ 192	\$ 460	\$ 834
Adjustments to reconcile net income to cash flow from operations:				
Depreciation and depletion	147	152	514	478
Accretion of asset retirement obligation (Note 7)	7	7	28	26
Foreign exchange loss on long-term debt (Note 9)	59	53	145	115
Deferred taxes (Note 11)	(25)	(12)	(1)	(18)
Share-based compensation	(5)	2	(2)	5
Reclamation expenditures (Note 7)	(1)	(2)	(18)	(42)
Change in employee future benefits and other	—	(1)	(20)	(51)
Cash flow from operations	\$ 207	\$ 391	\$ 1,106	\$ 1,347
Change in non-cash working capital (Note 15)	107	76	(361)	236
Cash from operating activities	\$ 314	\$ 467	\$ 745	\$ 1,583
Cash from (used in) financing activities				
Drawdown (repayment) of bank credit facilities	\$ (60)	\$ —	\$ 140	\$ —
Repayment of senior notes	—	—	—	(310)
Issuance of shares	—	—	1	—
Dividends	(169)	(169)	(678)	(678)
Cash used in financing activities	\$ (229)	\$ (169)	\$ (537)	\$ (988)
Cash from (used in) investing activities				
Capital expenditures (Note 4)	\$ (170)	\$ (292)	\$ (930)	\$ (1,342)
Reclamation trust funding	(2)	(2)	(9)	(9)
Change in non-cash working capital (Note 15)	(30)	(38)	(42)	(2)
Cash used in investing activities	\$ (202)	\$ (332)	\$ (981)	\$ (1,353)
Foreign exchange gain on cash and cash equivalents held in foreign currency	\$ —	\$ —	\$ —	\$ 11
Decrease in cash and cash equivalents	\$ (117)	\$ (34)	\$ (773)	\$ (747)
Cash and cash equivalents, beginning of period	150	840	806	1,553
Cash and cash equivalents, end of period	\$ 33	\$ 806	\$ 33	\$ 806
Cash and cash equivalents consist of:				
Cash	\$ 33	\$ 639	\$ 33	\$ 639
Short-term investments	—	167	—	167
	\$ 33	\$ 806	\$ 33	\$ 806

Supplementary Information (Note 15)

See Notes to Unaudited Consolidated Financial Statements

Notes to Unaudited Consolidated Financial Statements

For the Three Months and Year Ended December 31, 2014

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

1) Nature of Operations

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

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

2) Basis of Presentation

These unaudited interim consolidated financial statements are prepared and reported in Canadian dollars in accordance with Canadian generally accepted accounting principles as set out in Part 1 of the Chartered Professional Accountants of Canada Handbook and in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and effective on January 29, 2015.

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

3) Accounting Policies

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

Taxes

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

Impairment

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

Levies

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

4) Property, Plant and Equipment, Net

Year ended December 31, 2014																		
	Upgrading and Extracting		Mining Equipment	Vehicles and Equipment		Buildings	Asset Retirement Costs		Major Turnaround Costs	Construction in Progress	Mine Development	Total						
(\$ millions)																		
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.

For the three months and year ended December 31, 2014, interest costs of \$30 million and \$111 million, respectively, were capitalized and included in property, plant and equipment (three months and year ended December 31, 2013 – \$27 million and \$107 million, respectively) based on an interest capitalization rate of 6.6 per cent for the three months and year ended December 31, 2014 (6.6 per cent and 6.5 per cent for the three months and year ended December 31, 2013, respectively).

5) Accounts Payable and Accrued Liabilities

(\$ millions)	December 31 2014	December 31 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

6) Employee Future Benefits

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

(\$ millions)	Year Ended December 31 2014	Year Ended December 31 2013
Accrued benefit liability, beginning of period	\$ 308	\$ 438
Current service cost ¹	42	45
Interest expense ²	14	16
Contributions	(48)	(109)
Re-measurement (gains) losses: ³		
Return on plan assets (excluding amounts included in net finance expense) ⁴	(76)	(46)
(Increase) decrease in discount rate	100	(91)
Other ⁵	(2)	55
Accrued benefit liability, end of period	\$ 338	\$ 308
Less current portion	(20)	(82)
Non-current portion	\$ 318	\$ 226

¹ Current service cost is recognized in net income as operating expense.

² Interest expense is net of estimated return on plan assets and is recognized in net income as net finance expense.

³ Re-measurement (gains) losses are recognized, net of taxes, in other comprehensive income (loss).

⁴ Interest earned on plan assets included in net finance expense was \$34 million (2013 - \$26 million)

⁵ The other re-measurement loss in 2013 reflects an increase in the estimated average lifespan of the plans' beneficiaries as a result of new actuarial standards.

7) Asset Retirement Obligation

The Corporation and each of the other Syncrude owners are liable for their share of ongoing obligations related to the reclamation and closure of the Syncrude properties on abandonment. The Corporation estimates reclamation and closure expenditures on disturbed mines and existing facilities will be made progressively over the next 70 years and has applied a risk-free interest rate of 2.25 per cent at December 31, 2014 (December 31, 2013 – 3.25 per cent) in deriving the asset retirement obligation.

(\$ millions)	Year Ended December 31 2014	Year Ended December 31 2013
Asset retirement obligation, beginning of period	\$ 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 period	\$ 1,219	\$ 896
Less current portion	(18)	(28)
Non-current portion	\$ 1,201	\$ 868

8) Other Liabilities

(\$ 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.

9) Foreign Exchange

(\$ millions)	Three Months Ended December 31		Year Ended December 31	
	2014	2013	2014	2013
Foreign exchange loss – long-term debt	\$ 59	\$ 53	\$ 145	\$ 115
Foreign exchange gain – other	(3)	(7)	(11)	(27)
Total foreign exchange loss	\$ 56	\$ 46	\$ 134	\$ 88

10) Net Finance Expense

(\$ millions)	Three Months Ended December 31		Year Ended December 31	
	2014	2013	2014	2013
Interest costs on long-term debt	\$ 30	\$ 28	\$ 119	\$ 123
Less capitalized interest on long-term debt	(30)	(27)	(111)	(107)
Interest expense on long-term debt	\$ —	\$ 1	\$ 8	\$ 16
Interest expense on employee future benefits	3	4	14	16
Accretion of asset retirement obligation	7	7	28	26
Interest income	—	(6)	(3)	(14)
Net finance expense	10	6	47	44

11) Tax Expense

(\$ millions)	Three Months Ended December 31		Year Ended December 31	
	2014	2013	2014	2013
Current tax expense	\$ 45	\$ 85	\$ 172	\$ 297
Deferred tax recovery	(25)	(12)	(1)	(18)
Total tax expense	\$ 20	\$ 73	\$ 171	\$ 279

12) Capital Management

The Corporation's capital consists of cash and cash equivalents, debt and Shareholders' equity. The balance of each of these items at 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.

In 2014, net debt rose to \$1,856 million at December 31, 2014 as payments for capital expenditures, dividends, and other liabilities were in excess of cash flow from operations. In addition, a weakening Canadian dollar in 2014 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.

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.

In July 2014, Canadian Oil Sands extended the terms of its credit facilities by approximately one year. The \$1,500 million credit facility was extended to June 30, 2018 and the \$40 million credit facility to June 30, 2016. As at December 31, 2014, \$140 million was drawn against these facilities (December 31, 2013 - \$nil).

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. Our earliest Senior Note maturity is in 2019 and the Corporation has about \$1.4 billion of unutilized credit facilities that mature in 2018. 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.

13) Financial Instruments

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

Offsetting Financial Assets and Financial Liabilities

The carrying values of accounts receivable and accounts payable and accrued liabilities have each been reduced by \$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 (\$ millions)	December 31 2014	December 31 2013
8.2% Senior Notes due April 1, 2027 (U.S. \$73.95 million)	\$ 96	\$ 95
7.9% Senior Notes due September 1, 2021 (U.S. \$250 million)	314	321
6.0% Senior Notes due April 1, 2042 (U.S. \$300 million)	313	323
4.5% Senior Notes due April 1, 2022 (U.S. \$400 million)	433	425
7.75% Senior Notes due May 15, 2019 (U.S. \$500 million)	626	636
	\$ 1,782	\$ 1,800

14) 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.

(\$ millions)	Cash Outflow By Period				
	Total	2015	2016 to 2017	2018 to 2019	After 2019
Pipeline and storage ¹	\$ 2,294	\$ 67	\$ 129	\$ 173	\$ 1,925
Other obligations ²	322	163	87	25	47
	\$ 2,616	\$ 230	\$ 216	\$ 198	\$ 1,972

¹ Reflects Canadian Oil Sands' take-or-pay commitments for the transportation and storage of crude oil, primarily on proposed pipelines.

² Primarily reflects Canadian Oil Sands' 36.74 per cent share of Syncrude's commitments for natural gas and diesel purchases at floating market prices, Syncrude's commitment to purchase tires, and Syncrude's capital commitments.

15) Supplementary Information

a) Change in Non-Cash Working Capital

(\$ millions)	Three Months Ended December 31		Year Ended December 31	
	2014	2013	2014	2013
Operating activities:				
Accounts receivable	\$ 165	\$ 46	\$ 167	\$ (58)
Inventories	(14)	(3)	(25)	(26)
Prepaid expenses	3	1	(1)	1
Accounts payable and accrued liabilities ("AP")	(92)	(96)	(299)	82
Current taxes	—	74	(259)	219
Other	15	16	14	16
AP changes reclassified to investing activities	30	38	42	2
Change in operating non-cash working capital	\$ 107	\$ 76	\$ (361)	\$ 236
Investing activities:				
Accounts payable and accrued liabilities	\$ (30)	\$ (38)	\$ (42)	\$ (2)
Change in investing non-cash working capital	\$ (30)	\$ (38)	\$ (42)	\$ (2)
Change in total non-cash working capital	\$ 77	\$ 38	\$ (403)	\$ 234

b) Income Taxes and Interest Paid

(\$ millions)	Three Months Ended December 31		Year Ended December 31	
	2014	2013	2014	2013
Income taxes paid	\$ 20	\$ 11	\$ 449	\$ 77
Interest paid	\$ 46	\$ 43	\$ 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) Cash Flow from Operations per Share

(\$ millions)	Three Months Ended December 31		Year Ended December 31	
	2014	2013	2014	2013
Cash Flow From Operations Per Share, basic and diluted	\$ 0.43	\$ 0.81	\$ 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.