Canadian Oil Sands

Q4

FOURTH QUARTER REPORT

January 29, 2015
TSX: COS

Canadian Oil Sands Announces Fourth Quarter Results, $0.05 per Share Dividend and Cost Reductions at Syncrude

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

Canadian Oil Sands Limited ("COS") generated cash flow from operations of $1,106 million ($2.28 per Share) in 2014 and $207 million ($0.43 per Share) during the fourth quarter of the year. Cash flow from operations in the fourth quarter was down about 47 per cent compared with the same period of 2013, largely reflecting lower crude oil prices and higher operating expenses. The decline in crude oil prices has continued into 2015 with West Texas Intermediate ("WTI") benchmark prices to date averaging US $47 per barrel. While the decline in oil prices has been significant, a weaker Canadian dollar has offset some of the impact.

In response to the price environment, Syncrude is undertaking a comprehensive review of costs. An effort was already underway at Syncrude to reduce the cost structure, but this work has intensified to identify near-term opportunities. The initial efforts have identified potential cost reductions in 2015, net to COS, of $260 million to $400 million, or about 10 to 15 per cent, in operating, development and capital costs relative to the budget COS released on December 3, 2014. COS has revised its Outlook for 2015 to incorporate $294 million, net to COS, of these potential cost reductions. COS does not anticipate these reductions to have an impact on production or reliability initiatives underway at Syncrude, and we are maintaining our production range of 35 million to 40 million barrels, net to COS for 2015.

COS is reducing its quarterly dividend to $0.05 per Share for the first quarter of 2015. COS had previously indicated its intention to reduce the quarterly dividend, based on the 2015 Budget assumptions released on December 3, 2014, to $0.20 per Share; however, crude oil prices have declined materially from the Budget assumptions, requiring a further reduction in the dividend to better align with the current price environment and as a prudent step to preserve balance sheet strength in the short and medium term.

“We entered the current period of low crude oil prices with a strong balance sheet, and by reducing our dividend and cutting costs at Syncrude, COS is well positioned to manage its business through a prolonged period of low oil prices and retain its long-term value,” said Ryan Kubik, President and Chief Executive Officer. "Syncrude has the flexibility to respond to market conditions without affecting projections for 2015 production."

"While the potential cost savings announced today are substantial, Syncrude is continuing to examine the longer-term opportunities to achieve a sustainable, lower cost structure. Syncrude and its owners strongly believe the competitiveness of the business can be enhanced through the full oil price cycle," said Mr. Kubik.

COS is in a strong financial position with net debt of approximately $1.9 billion at December 31, 2014, representing long-term debt-to-total capitalization of 30 per cent. With a long-term debt-to-total capitalization covenant of 55 per cent, a significant increase in debt or decrease in equity would be required to negatively impact our financial flexibility. Our earliest Senior Note maturity is in 2019 and COS has about $1.4 billion of unutilized credit facilities, which mature in 2018. With the cost and dividend reductions announced to date, COS has sufficient liquidity and balance sheet strength.

More detail on COS' Outlook for 2015 is provided at the end of this press release, and further information on our fourth quarter 2014 results is provided in the fourth quarter Management's Discussion and Analysis ("MD&A"), available on our website at www.cdnoilsands.com.

Highlights for the three months and year ended December 31, 2014:

- Cash flow from operations for the quarter was $207 million ($0.43 per Share) compared with $391 million ($0.81 per Share) in the same quarter of 2013. The decline in cash flow from operations is mainly the result of a lower realized selling price and higher operating expenses, partially offset by lower current taxes. On an annual basis, cash flow from operations decreased to $1,106 million from $1,347 million in 2013, as lower sales volumes and higher operating expenses were partially offset by lower current taxes.
- Net income was $25 million ($0.05 per Share) for the quarter compared with $192 million ($0.40 per Share) in the fourth quarter of 2013. On an annual basis, net income was $460 million in 2014 compared with $834 million in 2013. The decrease in net income reflects the same factors that impacted cash flow from operations. Additionally, foreign exchange losses and depreciation and depletion expense were higher in 2014 compared with 2013.
- Sales volumes for the quarter averaged about 108,100 barrels per day compared with about 112,100 barrels per day in the comparative 2013 quarter. On an annual basis, sales volumes averaged about 94,600 barrels per day in 2014 compared with 98,000 barrels per day the prior year.
- Operating expenses were $438 million in the fourth quarter of 2014 compared with $388 million in the same quarter of 2013. The increase mainly reflects additional maintenance costs associated with unplanned outages on upgrading units, and higher natural gas and diesel costs. Per-barrel operating expenses also rose to $44.04 in the fourth quarter of 2014 compared with $37.60 in the comparative 2013 period, reflecting lower sales volumes in the 2014 period. Operating expenses in 2014 were $1.7 billion, which were in line with our expectations for the year, but higher on a per-barrel basis as a result of lower sales volumes.
- COS is reducing its quarterly dividend to $0.05 per Share, payable on February 27, 2015 to shareholders of record on February 20, 2015. The Corporation paid dividends totaling $678 million, or $1.40 per Share, in 2014.

	Three Months Ended December 31		Year Ended December 31	
	2014	**2013**	**2014**	**2013**
Cash flow from operations[1] ($ millions)	**$ 207**	$ 391	**$ 1,106**	$ 1,347
Per Share[1] ($/Share)	**$ 0.43**	$ 0.81	**$ 2.28**	$ 2.78
Net income ($ millions)	**$ 25**	$ 192	**$ 460**	$ 834
Per Share, Basic and Diluted ($/Share)	**$ 0.05**	$ 0.40	**$ 0.95**	$ 1.72
Sales volumes[2]				
Total (mmbbls)	**9.9**	10.3	**34.5**	35.8
Daily average (bbls)	**108,139**	112,092	**94,557**	98,037
Realized SCO selling price ($/bbl)	**$ 81.32**	$ 91.47	**$ 99.24**	$ 99.55
West Texas Intermediate ("WTI") (average $US/bbl)	**$ 73.20**	$ 97.61	**$ 92.91**	$ 98.05
SCO premium (discount) to WTI (weighted average $/bbl)	**$ (3.23)**	$ (10.84)	**$ (2.55)**	$ (1.10)
Average foreign exchange rate ($US/$Cdn)	**$ 0.88**	$ 0.95	**$ 0.91**	$ 0.97
Operating expenses ($ millions)	**$ 438**	$ 388	**$ 1,686**	$ 1,494
Per barrel ($/bbl)	**$ 44.04**	$ 37.60	**$ 48.86**	$ 41.75
Capital expenditures ($ millions)	**$ 170**	$ 292	**$ 930**	$ 1,342
Dividends ($ millions)	**$ 169**	$ 169	**$ 678**	$ 678
Per Share ($/Share)	**$ 0.35**	$ 0.35	**$ 1.40**	$ 1.40

[1] Cash flow from operations and cash flow from operations per Share are additional GAAP financial measures and are defined in the "Additional GAAP Financial Measures" section of our MD&A.

[2] The Corporation's sales volumes differ from its production volumes due to changes in inventory, which are primarily in-transit pipeline volumes. Sales volumes are net of purchases.

Syncrude Operations

During the fourth quarter of 2014, Syncrude produced 26.9 million barrels, or 292,600 barrels per day, reflecting an unplanned outage in Syncrude's largest sour water treatment unit, which limited upgrading capacity. In the fourth quarter of 2013, Syncrude produced 28.3 million barrels, or 307,600 barrels per day.

On an annual basis, Syncrude produced 94.2 million barrels, or 258,100 barrels per day, in 2014 compared with 97.5 million barrels, or 267,000 barrels per day, in 2013. Production in 2014 was reduced by unplanned outages in Coker 8-1, sulphur processing units and a sour water treatment unit, whereas in 2013, delays completing scheduled turnarounds, as well as unplanned outages in extraction units, impacted production.

In 2014, Syncrude formed a Cost Analysis and Strategy Taskforce to identify more efficient and effective ways to conduct its business.The aim is to reduce the cost structure at Syncrude and improve profitability. Efforts under the taskforce intensified with the substantial decline in crude oil prices over the fourth quarter of 2014. As a result of this work, we are estimating reductions in 2015 of $160 million to $250 million in operating and development expenses and $100 million to $150 million in capital expenditures, net to COS. The cost savings represent efficiencies in work scope, deferrals of discretionary projects, and workforce initiatives. The reductions are not anticipated to impact production or reliability initiatives underway at Syncrude. As a long-term initiative, the taskforce will continue to explore further opportunities to establish a sustainable, lower-cost structure at Syncrude.

As well, Syncrude continues to focus on improving reliability. In 2014, Syncrude completed improvements in mining, froth treatment and upgrading to address the root causes of previous unplanned outages. The work included the recapitalization of all of Syncrude's primary bitumen mining facilities with the relocation and refurbishment of the Aurora North mine trains in 2013 and the replacement of the Mildred Lake mine trains in 2014. In bitumen froth treatment, Syncrude retrofitted bitumen centrifuges to improve the quality of bitumen feed and increase throughput rates to the upgrader. In upgrading, Syncrude replaced the heat exchangers in its hydrogen plants to prevent production losses as a result of unplanned hydrogen plant outages. Syncrude has a number of initiatives planned for 2015.

Progress on Syncrude's major projects continued with the new Mildred Lake mine trains commencing operations in the fourth quarter of 2014 and completion of the Centrifuge Tailings Management project expected in 2015. With the completion of these major projects, the financing and execution risk of Syncrude's major capital program is largely behind us. The investment in this program provides Syncrude with the infrastructure to produce the remaining ore at its two operating mines and improve its tailings management performance, as well as support new ore production from its Mildred Lake Extension ("MLX") project once approved.

Syncrude filed an application for regulatory approval of its MLX project in December 2014. If approved, this project is intended to extend the life of Syncrude's Mildred Lake mine operations by approximately 10 years. Project scoping is underway and a cost estimate has not yet been approved by Syncrude's owners. Pending regulatory approval, capital investment and construction would begin late this decade.

2015 Outlook

- COS is maintaining its estimate for annual Syncrude production to range from 95 to 110 million barrels with a single-point estimate of 103 million barrels.
- We are reducing our estimate for the average WTI crude oil price to US$55 per barrel. Assuming an $0.82 CAD:USD exchange rate and a $4 per barrel discount for synthetic crude oil ("SCO") relative to Canadian dollar WTI, our forecast annual realized SCO selling price is about $63 per barrel.
- The estimate for operating expenses has been reduced to $1,521 million, or about $40 per barrel, based on a production estimate of 103 million barrels at Syncrude and a natural gas price assumption of $3 per gigajoule, as well as the other assumptions outlined in our guidance. The decrease is comprised of $166 million in cost reductions and $45 million due to the lower natural gas price assumption.
- We have decreased our estimate for 2015 Crown royalties to $119 million.
- Based on our updated guidance assumptions, cash flow from operations is estimated at $368 million, or $0.76 per Share.
- The estimate for capital expenditures has also been reduced to $451 million, net to COS, which includes $104 million of remaining expenditures on the major projects and incorporates $110 million in cost reductions.

(millions of Canadian dollars, except volume and per barrel amounts)		**As of January 29, 2015**		As of December 3, 2014
Operating assumptions				
Syncrude production (mmbbls)		**103**		103
Canadian Oil Sands sales (mmbbls)		**37.8**		37.8
Sales, net of crude oil purchases and transportation	**$**	**2,387**	$	3,074
Realized SCO selling price ($/bbl)	**$**	**63.08**	$	81.23
Operating expenses	**$**	**1,521**	$	1,729
Operating expenses per barrel	**$**	**40.19**	$	45.69
Development expenses	**$**	**151**	$	169
Crown royalties	**$**	**119**	$	176
Current taxes	**$**	**65**	$	120
Cash flow from operations[1]	**$**	**368**	$	730
Capital expenditure assumptions				
Major projects	**$**	**104**	$	104
Regular maintenance	**$**	**315**	$	425
Capitalized interest	**$**	**32**	$	35
Total capital expenditures	**$**	**451**	$	564
Business environment assumptions				
Sales weighted average WTI crude oil (USD/bbl)	**$**	**55.00**	$	75.00
Sales weighted average premium/discount to CAD WTI ($/bbl)	**$**	**(4.00)**	$	(4.00)
Sales weighted average foreign exchange rate (CAD:USD)	**$**	**0.82**	$	0.88
Sales weighted average AECO natural gas (CAD/GJ)	**$**	**3.00**	$	4.00

[1] Cash flow from operations is an additional GAAP financial measure and is defined in the "Additional GAAP Financial Measures" section of the MD&A.

Changes in certain factors and market conditions could potentially impact Canadian Oil Sands' Outlook. More information on the Outlook and a sensitivity analysis of the key factors affecting the Corporation's performance is provided in our MD&A and the January 29, 2015 guidance document, which are available on our web site at www.cdnoilsands.com under "Investor Centre".

Forward-Looking Information

In the interest of providing the shareholders and potential investors of Canadian Oil Sands Limited (the "Corporation") with information regarding the Corporation, including management's assessment of the Corporation's future production and cost estimates, plans and operations, certain statements throughout this press release contain "forward-looking information" under applicable securities law. Forward-looking statements are typically identified by words such as "anticipate", "expect", "believe", "plan", "intend" or similar words suggesting future outcomes.

Forward-looking statements in this press release include, but are not limited to, statements with respect to: the estimated potential 2015 cost reductions in operating and development expenses and capital expenditures identified through Syncrude's cost review and the belief that such cost reductions will not affect production or reliability initiatives; all expectations regarding dividends; all expectations regarding net debt; all expectations regarding the Corporation's credit facilities; the timing of completion of the Centrifuge plant at the Mildred Lake Mine; the belief that the investment in the Syncrude major projects provides Syncrude with the infrastructure to produce the remaining ore at its two operating mines and improve its tailings management performance, as well as support new ore production from the Mildred Lake Extension project once approved; the belief that the Mildred Lake Extension project should extend the life of the Mildred Lake operations by approximately 10 years; the timing of capital investment and construction for the Mildred Lake Extension project; the 2015 annual Syncrude production range of 95 million barrels to 110 million barrels and the

Corporation's 2015 budget assumption of 103 million barrels (37.8 million barrels net to the Corporation); the estimated sales, operating expenses, development expenses, Crown royalties, current taxes, capital expenditures, and cash flow from operations in 2015; the estimated price for crude oil and natural gas in 2015; the estimated foreign exchange rate in 2015; the anticipated impact of increases or decreases in oil prices, production, operating expenses, foreign exchange rates and natural gas prices on the Corporation's cash flow from operations; the estimated 2015 major project, regular maintenance and capitalized interest spending; the estimated realized selling price, which includes the anticipated differential to West Texas Intermediate ("WTI") to be received in 2015 for the Corporation's product; the belief that the Corporation is well positioned to manage its business through a prolonged period of low oil prices and the belief that, with the cost and dividend reductions announced to date, the Corporation has sufficient liquidity and balance sheet strength.

You are cautioned not to place undue reliance on forward-looking statements, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will not occur. Although the Corporation believes that the expectations represented by such forward-looking statements are reasonable and reflect the current views of the Corporation with respect to future events, there can be no assurance that such assumptions and expectations will prove to be correct.

The factors or assumptions on which the forward-looking information is based include, but are not limited to: the assumptions outlined in the Corporation's guidance document as posted on the Corporation's website at www.cdnoilsands.com as of January 29, 2015 and as subsequently amended or replaced from time to time, including without limitation, the assumptions as to production, operating expenses and oil prices; the successful and timely implementation of capital projects; Syncrude's major project spending plans; the ability to obtain regulatory and Syncrude joint venture owner approval; our ability to either generate sufficient cash flow from operations to meet our current and future obligations or obtain external sources of debt and equity capital; the continuation of assumed tax, royalty and regulatory regimes and the accuracy of the estimates of our reserves and resources volumes.

Some of the risks and other factors which could cause actual results or events to differ materially from current expectations expressed in the forward-looking statements contained in this press release include, but are not limited to: volatility of crude oil prices; volatility of the synthetic crude oil ("SCO") to WTI differential; the impact that pipeline capacity and apportionment and refinery demand have on prices for SCO and the ability to deliver SCO; the impacts of regulatory changes especially those which relate to royalties, taxation, tailings, water and the environment; the impact of new technologies on the cost of oil sands mining; the impacts of rising costs associated with tailings and water management; the inability of Syncrude to obtain required consents, permits or approvals, including without limitation, the inability of Syncrude to obtain approval to release water from its operations; the impact of Syncrude being unable to meet the conditions of its approval for its tailings management plan under Directive 074; various events which could disrupt operations including fires, equipment failures and severe weather; unsuccessful or untimely implementation of capital or maintenance projects; the impact of technology on operations and processes and how new complex technology may not perform as expected; the obtaining of required owner approvals from the Syncrude owners for expansions, operational issues and contractual issues; labour turnover and shortages and the productivity achieved from labour in the Fort McMurray area; uncertainty of estimates with respect to reserves and resources; the supply and demand metrics for oil and natural gas; currency and interest rate fluctuations; volatility of natural gas prices; the Corporation's ability to either generate sufficient cash flow from operations to meet its current and future obligations or obtain external sources of debt and equity capital; the inability of the Corporation to continue to meet the listing requirements of the Toronto Stock Exchange; general economic, business and market conditions and such other risks and uncertainties described in the Corporation's AIF dated February 20, 2014 and in the reports and filings made with securities regulatory authorities from time to time by the Corporation which are available on the Corporation's profile on SEDAR at www.sedar.com and on the Corporation's website at www.cdnoilsands.com.

You are cautioned that the foregoing list of important factors is not exhaustive. Furthermore, the forward-looking statements contained in this press release are made as of January 29, 2015, and unless required by law, the Corporation does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise. The forward-looking statements contained in this press release are expressly qualified by this cautionary statement.

Additional GAAP Financial Measures

In this press release, we refer to additional GAAP financial measures that do not have any standardized meaning as prescribed by Canadian GAAP. Additional GAAP financial measures include: cash flow from operations, cash flow from operations on a per share basis, long-term debt-to-total capitalization and net debt. For more information on additional GAAP financial measures please refer to our Fourth Quarter MD&A which is available on the Corporation's website at www.cdnoilsands.com.

Management’s Discussion and Analysis

The following Management’s Discussion and Analysis (“MD&A”) was prepared as of January 29, 2015 and should be read in conjunction with the unaudited consolidated financial statements and notes thereto of Canadian Oil Sands Limited (the “Corporation”) for the three months and years ended December 31, 2014 and December 31, 2013, the audited consolidated financial statements and MD&A of the Corporation for the year ended December 31, 2013 and the Corporation’s Annual Information Form (“AIF”) dated February 20, 2014. Additional information on the Corporation, including its AIF, is available on SEDAR at **www.sedar.com** or on the Corporation’s website at **www.cdnoilsands.com.** References to “Canadian Oil Sands”, “COS” or “we” include the Corporation, its subsidiaries and partnerships. The financial results of Canadian Oil Sands have been prepared in accordance with Canadian Generally Accepted Accounting Principles (“GAAP”) and are reported in Canadian dollars, unless otherwise noted.

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In the interest of providing the Corporation’s shareholders and potential investors with information regarding the Corporation, including management’s assessment of the Corporation’s future production and cost estimates, plans and operations, certain statements throughout this MD&A contain “forward-looking information” under applicable securities law. Forward-looking statements are typically identified by words such as “anticipate”, “expect”, “believe”, “plan”, “intend” or similar words suggesting future outcomes.

Forward-looking statements in this MD&A include, but are not limited to, statements with respect to: the 2015 annual Syncrude production range of 95 million barrels to 110 million barrels and the Corporation's 2015 Budget assumption of 103 million barrels (37.8 million barrels net to the Corporation); the estimated potential 2015 cost reductions in operating and development expenses and capital expenditures identified through Syncrude's cost review and the belief that the cost reductions will not affect production or reliability initiatives; all expectations regarding dividends; the estimated sales, operating expenses, purchased energy costs, development expenses, Crown royalties, current taxes, capital expenditures and cash flow from operations for 2015; the estimated price for crude oil and natural gas in 2015; the estimated foreign exchange rates in 2015; the estimated realized selling price, which includes the anticipated differential to West Texas Intermediate (“WTI”) to be received in 2015 for the Corporation’s product; the expectations regarding net debt; the anticipated impact of increases or decreases in oil prices, production, operating expenses, foreign exchange rates and natural gas prices on the Corporation’s cash flow from operations; the belief that fluctuations in the Corporation’s realized selling prices, U.S. to Canadian dollar exchange rate fluctuations, planned and unplanned maintenance activities, changes in bitumen values, changes in natural gas prices and current taxes may impact the Corporation’s financial results in the future; the belief that future depreciation and depletion expense will increase upon completion of the Syncrude major projects; all expectations regarding the Corporation's credit facilities; the estimated cost and completion date for the centrifuge plant at the Mildred Lake mine; the estimated 2015 regular maintenance, capitalized interest and major project spending; the belief that the Corporation is positioned to fund its business in the current environment of lower crude oil prices; the estimate of prospective resources impacted by the exercise of the option on a portion of Leases 29 and 31 by certain third parties; the belief that the Mildred Lake mine train replacements should *increase processing capacity, improve reliability and reduce maintenance costs; the belief that the centrifuge plant at the Mildred Lake mine should accelerate the pace of tailings treatment to meet regulatory requirements; the belief that the investment in the Syncrude major projects provides Syncrude with the infrastructure to produce the remaining ore at its two operating mines and improve its tailings management performance, as well as support new ore production from its Mildred Lake Extension project once approved; the belief that the Mildred Lake Extension project should extend the life of the Mildred Lake operations by approximately 10 years; the timing of capital investment and construction for the Mildred Lake Extension project; the belief that, with the cost and dividend reductions announced to date, the Corporation has sufficient liquidity and balance sheet strength.*

You are cautioned not to place undue reliance on forward-looking statements, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will not occur. Although the Corporation believes that the expectations represented by such forward-looking statements are reasonable and reflect the current views of the Corporation with respect to future events, there can be no assurance that such assumptions and expectations will prove to be correct.

The factors or assumptions on which the forward-looking information is based include, but are not limited to: the assumptions outlined in the Corporation's guidance document as posted on the Corporation's website at ***www.cdnoilsands.com*** *as of January 29, 2015 and as subsequently amended or replaced from time to time, including without limitation, the assumptions as to production, operating expenses and oil prices; the successful and timely implementation of capital projects; Syncrude's major project spending plans; the ability to obtain regulatory and Syncrude joint venture owner approval; our ability to either generate sufficient cash flow from operations to meet our current and future obligations or obtain external sources of debt and equity capital; the continuation of assumed tax, royalty and regulatory regimes and the accuracy of the estimates of our reserves and resources volumes.*

Some of the risks and other factors which could cause actual results or events to differ materially from current expectations expressed in the forward-looking statements contained in this MD&A include, but are not limited to: volatility of crude oil prices; volatility of the synthetic crude oil ("SCO") to WTI differential; the impact that pipeline capacity and apportionment and refinery demand have on prices for SCO and the ability to deliver SCO; the impacts of regulatory changes especially those which relate to royalties, taxation, tailings, water and the environment; the impact of new technologies on the cost of oil sands mining; the impacts of rising costs associated with tailings and water management; the inability of Syncrude to obtain required consents, permits or approvals, including without limitation, the inability of Syncrude to obtain approval to release water from its operations; the impact of Syncrude being unable to meet the conditions of its approval for its tailings management plan under Directive 074; various events which could disrupt operations including fires, equipment failures and severe weather; unsuccessful or untimely implementation of capital or maintenance projects; the impact of technology on operations and processes and how new complex technology may not perform as expected; the obtaining of required owner approvals from the Syncrude owners for expansions, operational issues and contractual issues; labour turnover and shortages and the productivity achieved from labour in the Fort McMurray area; uncertainty of estimates with respect to reserves and resources; the supply and demand metrics for oil and natural gas; currency and interest rate fluctuations; volatility of natural gas prices; the Corporation's ability to either generate sufficient cash flow from operations to meet its current and future obligations or obtain external sources of debt and equity capital; the inability of the Corporation to continue to meet the listing requirements of the Toronto Stock Exchange; general economic, business and market conditions and such other risks and uncertainties described in the Corporation's AIF dated February 20, 2014 and in the reports and filings made with securities regulatory authorities from time to time by the Corporation which are available on the Corporation's profile on SEDAR at ***www.sedar.com*** *and on the Corporation's website at* ***www.cdnoilsands.com****.*

You are cautioned that the foregoing list of important factors is not exhaustive. Furthermore, the forward-looking statements contained in this MD&A are made as of January 29, 2015, and unless required by law, the Corporation does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

Additional GAAP Financial Measures

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

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

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

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

	Three Months Ended December 31		**Year Ended December 31**	
($ millions)	**2014**	2013	**2014**	2013
Cash flow from operations[1]	**$ 207**	$ 391	**$ 1,106**	$ 1,347
Change in non-cash working capital[1]	**107**	76	**(361)**	236
Cash from operating activities[1]	**$ 314**	$ 467	**$ 745**	$ 1,583

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

Net debt, total net capitalization, total capitalization, net debt-to-total net capitalization and long-term debt-to-total capitalization are used by the Corporation to analyze liquidity and manage capital, as discussed in the "Liquidity and Capital Resources" section of this MD&A and in Note 12 to the unaudited consolidated financial statements for the three months and year ended December 31, 2014.

Overview

Canadian Oil Sands Limited ("COS") generated cash flow from operations of $1,106 million ($2.28 per Share) in 2014 and $207 million ($0.43 per Share) during the fourth quarter of the year. Cash flow from operations in the fourth quarter was down about 47 per cent compared with the same period of 2013, largely reflecting lower crude oil prices and higher operating expenses. The decline in crude oil prices has continued into 2015 with West Texas Intermediate ("WTI") benchmark prices to date averaging US$47 per barrel. While the decline in oil prices has been significant, a weaker Canadian dollar has offset some of the impact.

In response to the price environment, Syncrude is undertaking a comprehensive review of costs. An effort was already underway at Syncrude to reduce the cost structure, but this work has intensified to identify near-term opportunities. The initial efforts have identified potential cost reductions in 2015, net to COS, of $260 million to $400 million, or about 10 to 15 per cent, in operating, development and capital costs relative to the budget COS released on December 3, 2014. COS has revised its Outlook for 2015 to incorporate $294 million, net to COS, of these potential cost reductions. COS does not anticipate these reductions to have an impact on production or reliability initiatives underway at Syncrude.

Relative to the budget COS issued on December 3, 2014, we are providing the following key assumptions for 2015:

- We are maintaining our estimate for Syncrude production within the range of 95 to 110 million barrels.
- We are reducing our US$WTI price assumption to US$55 per barrel from US$75 per barrel.
- After adjusting for lower crude oil prices and cost reductions, cash flow from operations is estimated at $368 million.

Further information on the 2015 Outlook is provided in the Outlook section of this MD&A.

During 2014, Syncrude produced 94.2 million barrels of SCO compared with 97.5 million barrels in 2013. In the fourth quarter, Syncrude produced 27 million barrels compared with our most recent estimate of 30 million barrels due to an unplanned outage in Syncrude's largest sour water treatment unit, which limited upgrading capacity. The unit was back in service by the end of the year.

Operating expenses in 2014 were $1.7 billion, which were in line with our most recent Outlook, but were higher on a per-barrel basis as a result of lower sales volumes.

COS is reducing its quarterly dividend to $0.05 per Share for the first quarter of 2015. COS had previously indicated its intention to reduce the quarterly dividend, based on the 2015 Budget assumptions released on December 3, 2014, to $0.20 per Share; however, crude oil prices have declined materially from the Budget assumptions, requiring a further reduction in the dividend to better align with the current price environment and as a prudent step to preserve balance sheet strength in the short and medium term.

COS is in a strong financial position with net debt of approximately $1.9 billion at December 31, 2014, representing long-term debt-to-total capitalization of 30 per cent. With a long-term debt-to-total capitalization covenant of 55 per cent, a significant increase in debt or decrease in equity would be required to negatively impact our financial flexibility. Our earliest Senior Note maturity is in 2019 and COS has about $1.4 billion of unutilized credit facilities that mature in 2018. With the cost and dividend reductions announced to date, COS has sufficient liquidity and balance sheet strength.

Progress on Syncrude's major projects continued with the new Mildred Lake mine trains commencing operations in the fourth quarter of 2014 and completion of the Centrifuge Tailings Management project expected in 2015. With the completion of these major projects, the financing and execution risk of Syncrude’s major capital program is largely behind us. The investment in this program provides Syncrude with the infrastructure to produce the remaining ore at its two operating mines and improve its tailings management performance, as well as support new ore production from its Mildred Lake Extension ("MLX") project once approved.

Syncrude filed an application for regulatory approval of its MLX project in December 2014. If approved, this project is intended to extend the life of Syncrude's Mildred Lake mine operations by approximately 10 years. Project scoping is underway and a cost estimate has not yet been approved by Syncrude's owners. Pending regulatory approval, capital investment and construction would begin late this decade.

Highlights

	Three Months Ended December 31		Year Ended December 31	
	2014	2013	**2014**	2013
Cash flow from operations[1] ($ millions)	**$ 207**	$ 391	**$ 1,106**	$ 1,347
Per Share[1] ($/Share)	**$ 0.43**	$ 0.81	**$ 2.28**	$ 2.78
Net income ($ millions)	**$ 25**	$ 192	**$ 460**	$ 834
Per Share, Basic and Diluted ($/Share)	**$ 0.05**	$ 0.40	**$ 0.95**	$ 1.72
Sales volumes[2]				
Total (mmbbls)	**9.9**	10.3	**34.5**	35.8
Daily average (bbls)	**108,139**	112,092	**94,557**	98,037
Realized SCO selling price ($/bbl)	**$ 81.32**	$ 91.47	**$ 99.24**	$ 99.55
West Texas Intermediate ("WTI") (average $US/bbl)	**$ 73.20**	$ 97.61	**$ 92.91**	$ 98.05
SCO premium (discount) to WTI (weighted average $/bbl)	**$ (3.23)**	$ (10.84)	**$ (2.55)**	$ (1.10)
Average foreign exchange rate ($US/$Cdn)	**$ 0.88**	$ 0.95	**$ 0.91**	$ 0.97
Operating expenses ($ millions)	**$ 438**	$ 388	**$ 1,686**	$ 1,494
Per barrel ($/bbl)	**$ 44.04**	$ 37.60	**$ 48.86**	$ 41.75
Capital expenditures ($ millions)	**$ 170**	$ 292	**$ 930**	$ 1,342
Dividends ($ millions)	**$ 169**	$ 169	**$ 678**	$ 678
Per Share ($/Share)	**$ 0.35**	$ 0.35	**$ 1.40**	$ 1.40

[1] Cash flow from operations and cash flow from operations per Share are additional GAAP financial measures and are defined in the "Additional GAAP Financial Measures" section of this MD&A.

[2] The Corporation's sales volumes differ from its production volumes due to changes in inventory, which are primarily in-transit pipeline volumes. Sales volumes are net of purchases.

Review of Operations

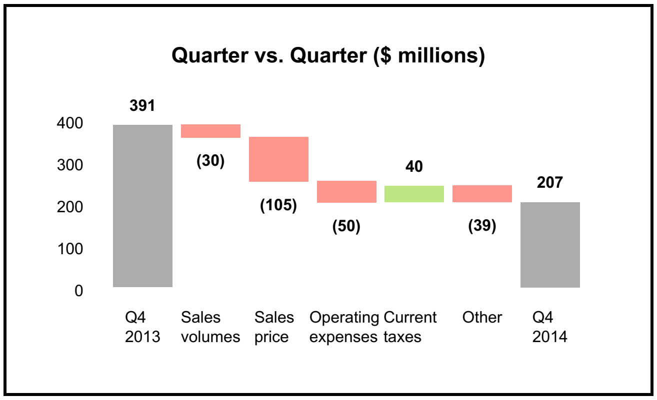
During the fourth quarter of 2014, Syncrude produced 26.9 million barrels, or 292,600 barrels per day, reflecting an unplanned outage in Syncrude's largest sour water treatment unit, which limited upgrading capacity. This compares with Syncrude production of 28.3 million barrels, or 307,600 barrels per day, in the fourth quarter of 2013.

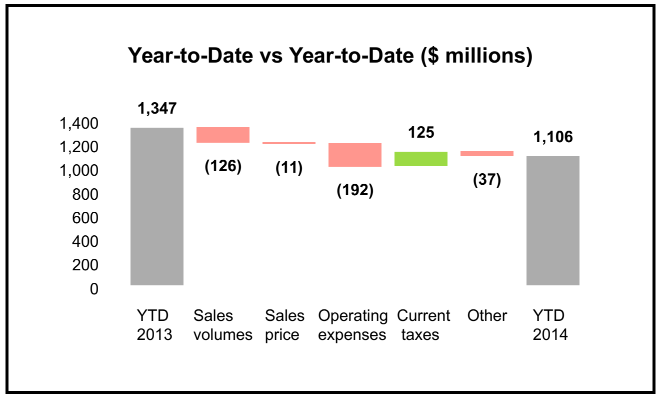
On an annual basis, Syncrude produced 94.2 million barrels, or 258,100 barrels per day, in 2014 compared with 97.5 million barrels, or 267,000 barrels per day, in 2013. Production in 2014 was reduced by unplanned outages on Coker 8-1, sulphur processing units and a sour water treatment unit, whereas in 2013, delays completing scheduled turnarounds as well as unplanned outages in extraction units impacted production.

Syncrude has continued to follow a disciplined, methodical approach to addressing the root causes of unplanned outages with several initiatives completed in 2014 and planned for 2015. We expect 2015 production to improve with production ranging from 95 million barrels to 110 million barrels with a single-point estimate of 103 million barrels as the impacts of these initiatives gradually take hold.

Review of Financial Results

Cash Flow from Operations



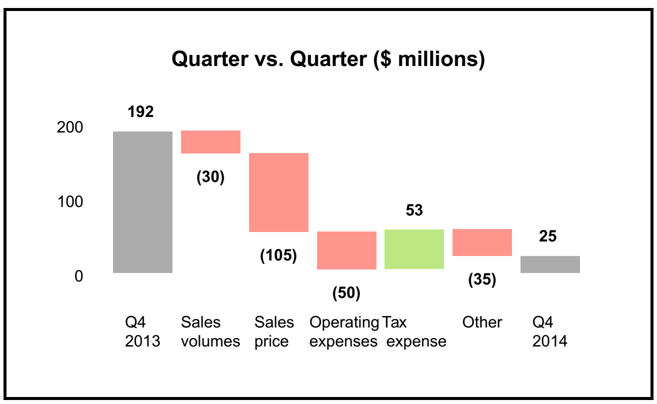


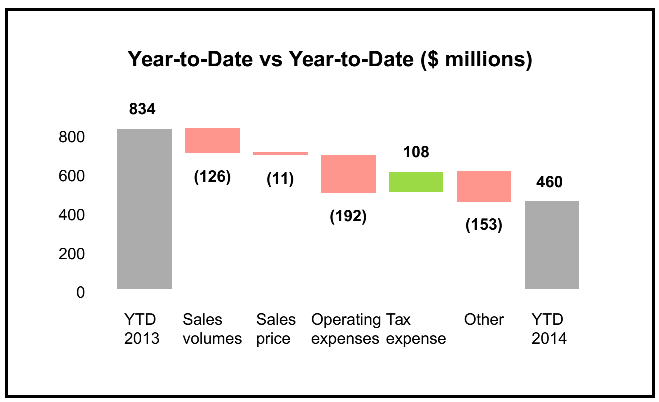
Cash flow from operations decreased in the fourth quarter of 2014 from the fourth quarter of 2013, mainly as a result of a lower realized selling price and higher operating expenses, partially offset by lower current taxes.

On an annual basis, cash flow from operations decreased in 2014 from 2013, as lower sales volumes and higher operating expenses were partially offset by lower current taxes.

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

Net Income





The decrease in net income for the three months and year ended December 31, 2014 primarily reflects the same factors that impacted cash flow from operations. Additionally, foreign exchange losses and depreciation and depletion expense were higher in the year ended December 31, 2014 compared with the year ended December 31, 2013.

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

The following table shows net income components per barrel of SCO.

($ per barrel)[1]	Three Months Ended December 31 2014	2013	Change	Year Ended December 31 2014	2013	Change
Sales net of crude oil purchases and transportation expense	**$ 81.32**	$ 91.63	$ (10.31)	**$ 99.06**	$ 99.63	$ (0.57)
Operating expense	**(44.04)**	(37.60)	(6.44)	**(48.86)**	(41.75)	(7.11)
Crown royalties	**(6.02)**	(5.00)	(1.02)	**(6.39)**	(4.85)	(1.54)
	$ 31.26	$ 49.03	$ (17.77)	**$ 43.81**	$ 53.03	$ (9.22)
Development expense	**$ (5.21)**	$ (2.80)	$ (2.41)	**$ (4.34)**	$ (3.72)	$ (0.62)
Administration and insurance expenses	**(0.13)**	(0.72)	0.59	**(1.05)**	(1.16)	0.11
Depreciation and depletion expense	**(14.72)**	(14.78)	0.06	**(14.89)**	(13.36)	(1.53)
Net finance expense	**(1.02)**	(0.53)	(0.49)	**(1.36)**	(1.21)	(0.15)
Foreign exchange gain (loss)	**(5.58)**	(4.48)	(1.10)	**(3.87)**	(2.46)	(1.41)
Tax expense	**(1.95)**	(7.12)	5.17	**(4.94)**	(7.79)	2.85
	(28.61)	(30.43)	1.82	**(30.45)**	(29.70)	(0.75)
Net income per barrel	**$ 2.65**	$ 18.60	$ (15.95)	**$ 13.36**	$ 23.33	$ (9.97)
Sales volumes (mmbbls)[2]	**9.9**	10.3	(0.4)	**34.5**	35.8	(1.3)

[1] Per barrel measures derived by dividing the relevant item by sales volumes in the period.

[2] Sales volumes, net of purchased crude oil volumes.

Net income components on a per barrel basis reflect the items previously noted and lower sales volumes in the 2014 periods relative to 2013.

Sales Net of Crude Oil Purchases and Transportation Expense

($ millions, except where otherwise noted)	Three Months Ended December 31 2014	2013	Change	Year Ended December 31 2014	2013	Change
Sales[1]	**$ 894**	$ 1,048	$ (154)	**$ 3,912**	$ 4,208	$ (296)
Crude oil purchases	**(70)**	(87)	17	**(443)**	(591)	148
Transportation expense	**(15)**	(16)	1	**(50)**	(52)	2
	$ 809	$ 945	$ (136)	**$ 3,419**	$ 3,565	$ (146)
Sales volumes[2]						
Total (mmbbls)	**9.9**	10.3	(0.4)	**34.5**	35.8	(1.3)
Daily average (bbls)	**108,139**	112,092	(3,953)	**94,557**	98,037	(3,480)
Realized SCO selling price[3] (average $Cdn/bbl)	**$ 81.32**	$ 91.47	$ (10.15)	**$ 99.24**	$ 99.55	$ (0.31)
West Texas Intermediate (“WTI”) (average $US/bbl)	**$ 73.20**	$ 97.61	$ (24.41)	**$ 92.91**	$ 98.05	$ (5.14)
SCO premium (discount) to WTI (weighted-average $Cdn/bbl)	**$ (3.23)**	$ (10.84)	$ 7.61	**$ (2.55)**	$ (1.10)	$ (1.45)
Average foreign exchange rate ($US/$Cdn)	**$ 0.88**	$ 0.95	$ (0.07)	**$ 0.91**	$ 0.97	$ (0.06)

[1] Sales include sales of purchased crude oil and sulphur.

[2] Sales volumes, net of purchased crude oil volumes.

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

The $136 million decrease in fourth quarter sales, net of crude oil purchases and transportation expense, reflects a lower realized selling price and lower sales volumes relative to the fourth quarter of 2013.

- The fourth quarter of 2014 realized selling price decreased by $10 per barrel, reflecting a significantly lower U.S. dollar WTI price, partially offset by an improvement in the SCO differential to WTI and a weaker Canadian dollar. The wider SCO discount to WTI in the fourth quarter of 2013 reflected pipeline apportionment, which was not a significant factor in the fourth quarter of 2014.
- Sales volumes in the fourth quarter of 2014 averaged 108,100 barrels per day, down from sales volumes of 112,100 barrels per day in the fourth quarter of 2013. The lower volumes in 2014 reflect the unplanned outage in Syncrude's largest sour water treatment unit.

Year-to-date sales, net of crude oil purchases and transportation expense, decreased by $146 million in 2014 as a result of lower sales volumes.

- Sales volumes in 2014 averaged 94,600 barrels per day, down from 98,000 barrels per day in the comparative 2013 period due to an unplanned Coker 8-1 outage and unplanned outages in sulphur processing units and a sour water treatment unit.
- The 2014 realized selling price was largely unchanged from 2013, and reflects a weaker U.S. dollar WTI price and a deterioration in the SCO differential to WTI, offset by a weaker average Canadian dollar.

Crude oil purchases decreased in 2014 compared with 2013, as fewer purchased volumes were required to support production shortfalls and transportation arrangements.

Operating Expenses

The following table shows the major components of operating expenses in total dollars and per barrel of SCO:

	Three Months Ended December 31				Year Ended December 31			
	2014		2013		2014		2013	
	$ millions	$ per bbl	$ millions	$ per bbl	$ millions	$ per bbl	$ millions	$ per bbl
Production and maintenance[1]	**$ 354**	**$ 35.62**	$ 308	$ 29.88	**$ 1,335**	**$ 38.68**	$ 1,217	$ 34.01
Natural gas and diesel purchases[2]	**52**	**5.18**	37	3.62	**207**	**6.01**	144	4.02
Syncrude pension and incentive compensation	**22**	**2.22**	34	3.25	**101**	**2.92**	98	2.74
Other[3]	**10**	**1.02**	9	0.85	**43**	**1.25**	35	0.98
Total operating expenses	**$ 438**	**$ 44.04**	$ 388	$ 37.60	**$ 1,686**	**$ 48.86**	$ 1,494	$ 41.75

[1] Includes non-major turnaround costs. Major turnaround costs are capitalized as property, plant and equipment.
[2] Includes costs to purchase natural gas used to produce energy and hydrogen and diesel consumed as fuel.
[3] Includes fees for management services provided by Imperial Oil Resources, insurance premiums, and greenhouse gas emissions levies.

The $50 million increase in fourth quarter 2014 operating expenses over the comparative 2013 quarter was mainly due to additional maintenance costs associated with unplanned outages on upgrading units, as well as higher natural gas and diesel costs to support the operations. The increase in costs was partially offset by a decrease in the value of Syncrude's long-term incentive plans. A portion of Syncrude's long-term incentive compensation is based on the market return of certain Syncrude owners' shares, the returns being weaker in the last quarter of 2014 compared with the last quarter of 2013.

On a year-to-date basis, operating expenses increased by $192 million due to additional maintenance costs associated with unplanned outages on upgrading units, higher drilling and tailings management activities, and higher natural gas prices.

The following table shows operating expenses per barrel of bitumen and SCO. Costs are allocated to bitumen production and upgrading on the basis used to determine Crown royalties.

	Three Months Ended December 31				Year Ended December 31			
	2014		2013[3]		**2014**		2013[3]	
($ per barrel)	**Bitumen**	**SCO**	Bitumen	SCO	**Bitumen**	**SCO**	Bitumen	SCO
Bitumen production	**$ 26.46**	**$ 30.28**	$ 25.19	$ 29.08	**$ 29.08**	**$ 34.56**	$ 26.91	$ 32.52
Internal fuel allocation[1]	**2.28**	**2.61**	2.62	3.03	**2.92**	**3.47**	2.52	3.05
Total bitumen production expenses	**$ 28.74**	**$ 32.89**	$ 27.81	$ 32.11	**$ 32.00**	**$ 38.03**	$ 29.43	$ 35.57
Upgrading[2]		**$ 13.76**		$ 8.52		**$ 14.30**		$ 9.23
Less: internal fuel allocation[1]		**(2.61)**		(3.03)		**(3.47)**		(3.05)
Total upgrading expenses		**$ 11.15**		$ 5.49		**$ 10.83**		$ 6.18
Total operating expenses		**$ 44.04**		$ 37.60		**$ 48.86**		$ 41.75
(thousands of barrels per day)								
Syncrude production volumes	**335**	**293**	355	308	**307**	**258**	323	267
Canadian Oil Sands sales volumes		**108**		112		**95**		98

[1] Reflects energy generated by the upgrader that is used in the bitumen production process and is valued by reference to natural gas and diesel prices. Natural gas prices averaged $3.63 per GJ and $4.36 per GJ in the three months and year ended December 31, 2014, respectively, and $3.28 per GJ and $3.09 per GJ in the three months and year ended December 31, 2013, respectively. Diesel prices averaged $0.90 per litre and $0.99 per litre in the three months and year ended December 31, 2014, respectively, and $1.01 per litre and $0.91 per litre in the three months and year ended December 31, 2013, respectively.

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

[3] Certain 2013 comparative amounts have been reclassified to conform to the current year presentation.

Crown Royalties

Crown royalties increased to $60 million, or $6.02 per barrel, in the fourth quarter of 2014 from $52 million, or $5.00 per barrel, in the fourth quarter of 2013 mainly due to lower deductible capital expenditures.

On a year-to-date basis, Crown royalties increased to $221 million, or $6.39 per barrel, in 2014 from $174 million, or $4.85 per barrel, in the comparative 2013 period, mainly reflecting lower deductible capital expenditures in 2014.

Depreciation and Depletion Expense

Excluding the $35 million write-off of Arctic natural gas assets in the fourth quarter of 2013, depreciation and depletion expense was higher in the fourth quarter and year ended December 31, 2014 compared with the same periods in 2013 by $30 million and $71 million, respectively. The increases reflect additional depreciation on the retirement of assets in the fourth quarter of 2014 when the new Mildred Lake mine trains began operating, and new depreciation charges in 2014 on major projects that were completed in 2013.

Net Finance Expense

	Three Months Ended December 31		Year Ended December 31	
($ millions)	**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

Interest costs on the Corporation's U.S. dollar-denominated long-term debt reflect lower average outstanding debt levels in 2014 due to a U.S. $300 million debt repayment in August, 2013, offset by a weaker Canadian dollar in 2014. Interest income was lower in 2014 due to lower cash balances.

Foreign Exchange

($ millions)	Three Months Ended December 31 2014	Three Months Ended December 31 2013	Year Ended December 31 2014	Year Ended December 31 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

Foreign exchange gains and losses are the result of revaluations of the Corporation's U.S. dollar-denominated long-term debt, accounts receivable and cash into Canadian dollars. Overall, a weakening Canadian dollar has resulted in foreign exchange losses in both 2014 and 2013.

For 2014, the $US/$Cdn exchange rate was $0.86 at December 31, 2014 versus $0.89 at September 30, 2014 and $0.94 at December 31, 2013. The change in exchange rates generated foreign exchange losses on long-term debt of $59 million and $145 million in the three months and year ended December 31, 2014, respectively.

For 2013, the $US/$Cdn exchange rate was $0.94 at December 31, 2013 versus $0.97 at September 30, 2013 and $1.01 at December 31, 2012. The change in exchange rates generated foreign exchange losses on long-term debt of $53 million and $115 million in the three months and year ended December 31, 2013, respectively.

Tax Expense

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

Lower total tax expense in 2014 reflects lower year-to-date net income before taxes compared with 2013. Year-to-date current tax expense decreased in 2014 due to lower taxable income generated by the Corporation's partnership.

Asset Retirement Obligation

($ millions)	December 31 2014	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

Canadian Oil Sands' asset retirement obligation increased from $896 million at December 31, 2013 to $1,219 million at December 31, 2014 primarily due to a decrease in the interest rate used to discount future reclamation and closure expenditures and a change in the estimated future expenditures. The change in discount rate from 3.25 per cent at December 31, 2013 to 2.25 per cent at December 31, 2014 resulted in a $224 million increase in the asset retirement obligation.

In addition to the changes in the discount rate, the annual review of estimated future reclamation and closure expenditures resulted in an $89 million increase in the discounted asset retirement obligation and a $215 million increase in the undiscounted obligation, reflecting the planned extension of the Mildred Lake mine and higher costs for material movement.

Pension and Other Post-Employment Benefit Plans

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

[1] *Interest earned on plan assets included in net finance expense was $34 million (2013 - $26 million)*

[2] *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.*

The Corporation's obligation for Syncrude Canada Ltd.'s ("Syncrude Canada") accrued benefit liability increased to $338 million at December 31, 2014 from $308 million at December 31, 2013 due to a 50 basis point decrease in the interest rate used to discount the accrued benefit liability, partially offset by higher than expected actual returns on plan assets.

Contributions to Syncrude Canada's registered pension plans decreased in 2014 due to a reduction in payments prescribed by regulations resulting from the actuarial valuation completed in April, 2014. Prior to the valuation, higher annual prescribed contributions were required to fund large deficits in the registered pension plans. When the actuarial valuation was completed in 2014, the deficits were reduced due to the significant contributions in 2012 and 2013, as well as changes in actuarial assumptions.

Summary of Quarterly Results

	2014				2013			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Sales[1] ($ millions)	**$ 809**	$ 829	$ 786	$ 995	$ 945	$ 871	$ 921	$ 828
Net income ($ millions)	**$ 25**	$ 87	$ 176	$ 172	$ 192	$ 246	$ 219	$ 177
Per Share, Basic & Diluted	**$ 0.05**	$ 0.18	$ 0.36	$ 0.35	$ 0.40	$ 0.51	$ 0.45	$ 0.37
Cash flow from operations[2] ($ millions)	**$ 207**	$ 302	$ 240	$ 357	$ 392	$ 339	$ 340	$ 275
Per Share[2]	**$ 0.43**	$ 0.62	$ 0.50	$ 0.74	$ 0.81	$ 0.70	$ 0.70	$ 0.57
Dividends ($ millions)	**$ 169**	$ 170	$ 169	$ 170	$ 169	$ 170	$ 169	$ 170
Per Share	**$ 0.35**	$ 0.35	$ 0.35	$ 0.35	$ 0.35	$ 0.35	$ 0.35	$ 0.35
Daily average sales volumes[3] (bbls)	**108,139**	87,787	77,064	105,283	112,092	84,250	100,094	95,683
Realized SCO selling price ($/bbl)	**$ 81.32**	$ 102.58	$ 112.04	$ 105.73	$ 91.47	$ 112.55	$ 100.90	$ 96.11
WTI[4] (average $US/bbl)	**$ 73.20**	$ 97.25	$ 102.99	$ 98.61	$ 97.61	$ 105.81	$ 94.17	$ 94.36
SCO premium (discount) to WTI (weighted-average $/bbl)	**$ (3.23)**	$ (3.14)	$ (0.37)	$ (2.93)	$ (10.84)	$ 2.63	$ 4.79	$ 1.00
Operating expenses[5] ($/bbl)	**$ 44.04**	$ 47.73	$ 59.64	$ 46.91	$ 37.60	$ 46.15	$ 43.23	$ 41.20
Capital expenditures ($ millions)	**$ 170**	$ 222	$ 321	$ 217	$ 292	$ 413	$ 369	$ 268
Purchased natural gas price ($/GJ)	**$ 3.63**	$ 3.94	$ 4.45	$ 5.43	$ 3.28	$ 2.59	$ 3.41	$ 2.95
Foreign exchange rates ($US/$Cdn)								
Average	**$ 0.88**	$ 0.92	$ 0.92	$ 0.91	$ 0.95	$ 0.96	$ 0.98	$ 0.99
Quarter-end	**$ 0.86**	$ 0.89	$ 0.94	$ 0.90	$ 0.94	$ 0.97	$ 0.95	$ 0.98

[1] Sales after crude oil purchases and transportation expense.
[2] Cash flow from operations and cash flow from operations per Share are additional GAAP financial measures and are defined in the "Additional GAAP Financial Measures" section of this MD&A.
[3] Daily average sales volumes net of crude oil purchases.
[4] Pricing obtained from Bloomberg.
[5] Derived from operating expenses, as reported on the Consolidated Statements of Income and Comprehensive Income, divided by sales volumes during the period.

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

- Fluctuations in realized selling prices have affected the Corporation's sales. During the last eight quarters, quarterly average WTI prices have ranged from U.S. $73 per barrel to U.S. $106 per barrel, and the quarterly average SCO differentials to WTI have ranged from an $11 per barrel discount to a $5 per barrel premium.
- U.S. to Canadian dollar exchange rate fluctuations have resulted in foreign exchange gains and losses on the revaluation of U.S. dollar-denominated debt and have impacted realized selling prices.
- Planned maintenance activities and unplanned outages have impacted quarterly sales volumes, revenues, operating expenses and per barrel results.
- Changes in bitumen values have impacted Crown royalties.
- Major capital projects to replace or relocate Syncrude mine trains and to support tailings management plans have increased capital expenditures, reduced Crown royalties and lowered net finance expense over the past eight quarters. These projects are substantially complete at the end of 2014. Upon completion of these projects, future depreciation and depletion expense will increase.
- Fluctuations in natural gas prices have impacted operating expenses.

Capital Expenditures

($ millions)	Three Months Ended December 31 2014	2013	Year Ended December 31 2014	2013
Major Projects				
Mildred Lake Mine Train Replacement	**$ 33**	$ 105	**$ 289**	$ 457
Centrifuge Tailings Management	**48**	83	**273**	229
Aurora North Mine Train Relocations	**—**	7	**—**	149
Aurora North Tailings Management	**—**	10	**—**	77
Capital expenditures on major projects	**$ 81**	$ 205	**$ 562**	$ 912
Regular maintenance				
Capitalized turnaround costs	**$ —**	$ —	**$ 71**	$ 54
Other	**59**	60	**186**	269
Capital expenditures on regular maintenance	**$ 59**	$ 60	**$ 257**	$ 323
Capitalized interest	**$ 30**	$ 27	**$ 111**	$ 107
Total capital expenditures	**$ 170**	$ 292	**$ 930**	$ 1,342

Capital expenditures decreased $122 million in the fourth quarter of 2014 and $412 million in the year ended December 31, 2014 from the comparative 2013 periods, reflecting the completion of several tailings and lease development projects in 2013, including two major projects: Aurora North Mine Train Relocations and Aurora North Tailings Management. In addition, the majority of the costs for the Mildred Lake Mine Train Replacement project were incurred by September 30, 2014.

More information on the major projects is provided in the "Outlook" section of this MD&A.

Contractual Obligations and Commitments

The following table outlines the significant contractual obligations and commitments that were assumed as part of the normal course of operations and were known as of January 29, 2015. These obligations and commitments represent future cash payments that the Corporation is required to make under existing contractual agreements that it has entered into either directly, or as a 36.74 per cent owner in Syncrude. The principal payments and accrued interest due on long-term debt, the asset retirement obligation and the pension plan solvency deficiency payments are recognized as liabilities in the Corporation's consolidated financial statements. The other contractual obligations and commitments are not recognized as liabilities.

		Cash Outflow By Period			
($ millions)	Total	2015	2016 to 2017	2018 to 2019	After 2019
Long-term debt[1]	$ 2,924	$ 117	$ 233	$ 785	$ 1,789
Asset retirement obligations[2]	2,375	8	45	73	2,249
Pipeline and storage[3]	2,294	67	129	173	1,925
Other obligations[4]	390	178	117	31	64
	$ 7,983	$ 370	$ 524	$ 1,062	$ 6,027

[1] Reflects principal and interest payments. This differs from the carrying value, which excludes interest payments.

[2] Reflects Canadian Oil Sands' 36.74 per cent share of the undiscounted estimated future expenditures required to settle Syncrude's obligation to reclaim and close each of its mine sites and decommission its utilities plants, bitumen extraction plants, and upgrading complex.

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

[4] Primarily reflects Canadian Oil Sands' 36.74 per cent share of Syncrude's commitments for natural gas and diesel purchases at floating market prices, payments required to fund Syncrude Canada's registered pension plan solvency deficiency, and Syncrude's commitment to purchase tires.

Dividends

Dividend payments are set quarterly by the Board of Directors in the context of current and expected crude oil prices, economic conditions, Syncrude's operating performance and the Corporation's capacity to finance operating and investing obligations. Dividend amounts are established with the intent of absorbing short-term market volatility over several quarters, while maintaining a strong balance sheet to reduce exposure to potential oil price declines, cost increases or major operational upsets. The Corporation paid dividends to shareholders totaling $678 million, or $1.40 per Share, in 2014.

COS is reducing its quarterly dividend to $0.05 per Share for the first quarter of 2015. COS had previously indicated its intention to reduce the quarterly dividend, based on the 2015 Budget assumptions released on December 3, 2014, to $0.20 per Share; however, crude oil prices have declined materially from the Budget assumptions, requiring a further reduction in the dividend to better align with the current price environment and as a prudent step to preserve balance sheet strength in the short and medium term.

The quarterly dividend was declared by the Corporation on January 29, 2015, for a total dividend of approximately $24 million. The dividend will be paid on February 27, 2015 to shareholders of record on February 20, 2015.

Other

During the second quarter of 2014, third parties exercised their option (as previously disclosed in our AIF) to acquire a portion of Leases 29 and 31. These option portions contain about 300 million barrels of COS' prospective resources. There was no impact to the financial statements as a result of the exercise of this option. By their nature, all prospective resources have a chance of discovery and development, but there is no certainty that prospective resources will be commercially viable.

Liquidity and Capital Resources

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 from December 31, 2013 to December 31, 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 $1.5 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 - $nil).

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. Our earliest Senior Note maturity is in 2019 and COS has about $1.4 billion of unutilized credit facilities that mature in 2018. With the cost and dividend reductions announced to date, COS has sufficient liquidity and balance sheet strength.

Shareholders' Capital and Trading Activity

The Corporation's shares trade on the Toronto Stock Exchange under the symbol COS. On December 31, 2014, the Corporation had a market capitalization of approximately $5 billion with 484.6 million shares outstanding and a closing price of $10.42 per Share. The following table summarizes the trading activity for the fourth quarter of 2014.

	Fourth Quarter 2014	October 2014	November 2014	December 2014
Share price				
High	$ 20.74	$ 20.74	$ 18.10	$ 14.56
Low	$ 8.20	$ 16.89	$ 14.26	$ 8.20
Close	$ 10.42	$ 17.66	$ 14.54	$ 10.42
Volume of Shares traded (millions)	220.8	57.1	48.3	115.4
Weighted average Shares outstanding (millions)	484.6	484.6	484.6	484.6

2015 Outlook

(millions of Canadian dollars, except volume and per barrel amounts)	As of January 29, 2015	As of December 3, 2014
Operating assumptions		
Syncrude production (mmbbls)	**103**	103
Canadian Oil Sands sales (mmbbls)	**37.8**	37.8
Sales, net of crude oil purchases and transportation	**$ 2,387**	$ 3,074
Realized SCO selling price ($/bbl)	**$ 63.08**	$ 81.23
Operating expenses	**$ 1,521**	$ 1,729
Operating expenses per barrel	**$ 40.19**	$ 45.69
Development expenses	**$ 151**	$ 169
Crown royalties	**$ 119**	$ 176
Current taxes	**$ 65**	$ 120
Cash flow from operations[1]	**$ 368**	$ 730
Capital expenditure assumptions		
Major projects	**$ 104**	$ 104
Regular maintenance	**$ 315**	$ 425
Capitalized interest	**$ 32**	$ 35
Total capital expenditures	**$ 451**	$ 564
Business environment assumptions		
Sales weighted average WTI crude oil (USD/bbl)	**$ 55.00**	$ 75.00
Sales weighted average premium/discount to CAD WTI ($/bbl)	**$ (4.00)**	$ (4.00)
Sales weighted average foreign exchange rate (CAD:USD)	**$ 0.82**	$ 0.88
Sales weighted average AECO natural gas (CAD/GJ)	**$ 3.00**	$ 4.00

[1] Cash flow from operations is an additional GAAP financial measure and is defined in the "Additional GAAP Financial Measures" section of this MD&A.

In response to the current price environment, Syncrude is undertaking a comprehensive review of its costs. An effort was already underway at Syncrude to reduce the cost structure, but this work has intensified in recent weeks to identify near-term opportunities. The initial efforts have identified potential cost reductions in 2015 of $160 million to $250 million in operating and development expenses and $100 million to $150 million in capital expenditures, net to COS. COS has revised its Outlook for 2015 to incorporate $294 million, net to COS, of these potential cost reductions. COS does not anticipate these reductions to have an impact on production or reliability initiatives underway at Syncrude, and we are maintaining our production range for Syncrude of 95 million to 110 million barrels for 2015 (35 million to 40 million barrels net to COS).

We are reducing our estimate for the average WTI crude oil price to US$55 per barrel. Assuming an $0.82 CAD:USD exchange rate and a $4 per barrel discount for synthetic crude oil ("SCO") relative to Canadian dollar WTI, our forecast annual realized SCO selling price is about $63 per barrel.

We have decreased our estimate of 2015 Crown royalties by $57 million reflecting lower deemed bitumen revenues, partially offset by lower operating and development expenses and lower capital expenditures.

Based on these assumptions, estimated 2015 cash flow from operations is $368 million, or $0.76 per Share.

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

Outlook Sensitivity Analysis (January 29, 2015)

Variable	Annual Sensitivity	Cash Flow from Operations Increase $ millions[1,2]	$ / Share[1,2]
WTI crude oil price increase	USD $1.00/bbl	$ 29	$ 0.06
Syncrude production increase	1 million bbls	$ 14	$ 0.03
Canadian dollar weakening	$0.01 CAD:USD	$ 19	$ 0.04
Syncrude operating expense decrease	$1.00/bbl	$ 23	$ 0.05
Syncrude operating expense decrease	$100 million	$ 22	$ 0.05
AECO natural gas price decrease	$0.50/GJ	$ 13	$ 0.03

[1] *These sensitivities are after the impact of taxes.*

[2] *These sensitivities assume Canadian Oil Sands pays Crown royalties based on gross revenues in 2015.*

The 2015 Outlook contains forward-looking information and users are cautioned that the actual amounts may vary from the estimates disclosed. Please refer to the "Forward-Looking Information Advisory" section of this MD&A for the risks and assumptions underlying this forward-looking information.

Major Projects

The Mildred Lake Mine Train Replacement project was completed in 2014 at a total cost of $3.8 billion ($1.4 billion net to Canadian Oil Sands), a savings of $400 million relative to the original budget of $4.2 billion. The newly constructed mine trains are operational and are expected to increase processing capacity, improve reliability and reduce maintenance costs.

The Centrifuge Tailings Management project is now 97% complete, with final completion expected in 2015. The project continues to remain on budget with a cost estimate at $1.9 billion ($0.7 billion net to Canadian Oil Sands) and an estimated cost accuracy of +2%/-5%. This project is expected to accelerate the pace of tailings treatment to meet regulatory requirements.

With the completion of the major project program, Syncrude will have the infrastructure to produce the remaining ore at its two operating mines and improve its tailings management performance, as well as support new ore production from the MLX project once approved.

Consolidated Statements of Income and Comprehensive Income

(unaudited)

(millions of Canadian dollars, except per Share and Share volume amounts)	Three Months Ended December 31 2014	Three Months Ended December 31 2013	Year Ended December 31 2014	Year Ended December 31 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)

(millions of Canadian dollars)	Three Months Ended December 31 2014	Three Months Ended December 31 2013	Year Ended December 31 2014	Year Ended December 31 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)

(millions of Canadian dollars)	Three Months Ended December 31 2014	Three Months Ended December 31 2013	Year Ended December 31 2014	Year Ended December 31 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								
($ 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.*

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

	Three Months Ended December 31		Year Ended December 31	
($ millions)	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

	Three Months Ended December 31		Year Ended December 31	
($ millions)	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

	Three Months Ended December 31		Year Ended December 31	
($ millions)	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.

	Cash Outflow By Period									
(*$ millions*)		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 2014	2013	Year Ended December 31 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 2014	2013	Year Ended December 31 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 2014	2013	Year Ended December 31 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.

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Ryan Kubik
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