Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") was prepared as of February 24, 2015 and should be read in conjunction with the audited consolidated financial statements and notes thereto of Canadian Oil Sands Limited (the "Corporation") for the years ended December 31, 2014 and December 31, 2013 and the Corporation's Annual Information Form ("AIF") dated February 24, 2015. Additional information on the Corporation, including its AIF, is available on SEDAR at **www.sedar.com** or on the Corporation's website at **www.cdnoilsands.com.** References to "Canadian Oil Sands", "COS" or "we" include the Corporation, its subsidiaries and partnerships. The financial results of Canadian Oil Sands have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") and are reported in Canadian dollars, unless stated otherwise.

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Advisories

Forward-Looking Information

In the interest of providing the Corporation's shareholders and potential investors with information regarding the Corporation, including management's assessment of the Corporation's future production and cost estimates, plans and Syncrude operations, certain statements throughout this MD&A contain forward-looking information and forward-looking statements (collectively referred to as "forward-looking statements") 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 estimated value and amount of reserves and resources recoverable and the time frame to recover such reserves and resources; 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); plans regarding crude oil and currency hedges; the estimated potential 2015 cost reductions in operating, development and capital costs identified through Syncrude's cost review and the belief that the cost reductions will not impact health and safety, production or reliability initiatives; the estimated cost and completion date for 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 its Mildred Lake Extension ("MLX") project once approved; the belief that the MLX project should extend the life of the Mildred Lake operations by approximately 10 years; the timing of capital investment and construction for the MLX project; the belief that fluctuations in the Corporation's realized selling prices, U.S. to Canadian dollar exchange rate fluctuations, planned and unplanned maintenance activities, environmental and tailings management activities to meet regulatory requirements, changes in bitumen values and changes in natural gas prices

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 capital projects; all expectations regarding dividends, including the establishment of future dividend levels with the intent of absorbing short-term market volatility over several quarters; the belief that, based on the assumptions in our 2015 Outlook, the Corporation will have sufficient cash flow from operations to fund its December 31, 2014 working capital deficiency; the expectations regarding where the Corporation's synthetic crude oil ("SCO") will be consumed in the future; the factors that may impact the realized selling price that the Corporation receives for SCO; 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 estimated 2015 regular maintenance, capitalized interest and major project spending; 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 timing of the turnaround of Coker 8-3; the belief that the Mildred Lake mine train replacements should increase processing capacity, improve reliability and reduce maintenance costs; and the belief that the centrifuge plant at the Mildred Lake mine should accelerate the pace of tailings treatment to meet regulatory requirements.

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 statements are 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 SCO to WTI differential; the impact that pipeline capacity, 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 return 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 24, 2015 and in the reports and filings made with securities regulatory authorities from time to time by the Corporation which are available on the Corporation's profile on SEDAR at ***www.sedar.com*** *and on the Corporation's website at* ***www.cdnoilsands.com****.*

You are cautioned that the foregoing list of important factors is not exhaustive. Furthermore, the forward-looking statements contained in this MD&A are made as of February 24, 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:

($ millions)	**2014**	**2013**
Cash flow from operations[1]	**$ 1,106**	$ 1,347
Change in non-cash working capital[1]	**(361)**	236
Cash from operating activities[1]	**$ 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 17 to the consolidated financial statements for the years ended December 31, 2014 and December 31, 2013.

Business Description

Canadian Oil Sands is the largest owner of the Syncrude Joint Venture ("Syncrude"), a major producer of high quality, low sulphur, light, synthetic crude oil ("SCO"). Canadian Oil Sands' only producing asset is its 36.74 per cent working interest in Syncrude, generating revenue from its share of production. COS represents the only public opportunity for undiversified investment directly in Syncrude.

Syncrude is involved in the mining and upgrading of bitumen from oil sands near Fort McMurray in northern Alberta. The Syncrude Project is comprised of open-pit oil sands mines, utilities plants, bitumen extraction plants and an upgrading complex that processes bitumen into SCO. Syncrude is jointly controlled by seven owners. Each owner has an undivided interest in the assets of Syncrude, takes its production in kind, and funds its proportionate share of Syncrude's operating, development and capital costs on a daily basis. Canadian Oil Sands also owns 36.74 per cent of the issued and outstanding shares of Syncrude Canada Ltd. ("Syncrude Canada"). Syncrude Canada operates Syncrude on behalf of the owners and is responsible for selecting, compensating, directing and controlling Syncrude's employees, and for administering all related employment benefits and obligations. Oversight of Syncrude Canada is provided by a Syncrude Management Committee and various management sub-committees as well as Syncrude Canada's Board of Directors and Board committees, all of which are staffed by representatives of the Syncrude owners. In particular, the Syncrude Management Committee oversees and approves significant Syncrude expenditures and long-term strategies.

Syncrude's leases are located in the Athabasca oil sands deposit. Syncrude's reserves and resources are all considered to be recoverable through surface mining, meaning that the oil sands are found beneath a relatively shallow overburden layer. Based on evaluations performed in accordance with the Canadian Oil and Gas Evaluation ("COGE") Handbook by our qualified independent petroleum reserve evaluators effective December 31, 2014, Canadian Oil Sands estimates Syncrude's proved plus probable reserves at 4.4 billion barrels (1.6 billion barrels net to the Corporation), best-estimate contingent resources at 4.6 billion barrels (1.7 billion barrels net to the Corporation) and best-estimate prospective resources at 1.1 billion barrels (0.4 billion barrels net to the Corporation) of SCO. Based on the 2015 Outlook of estimated production between 95 million and 110 million barrels for the year, Syncrude's proved plus probable reserve life is estimated to be between 40 and 46 years. More information regarding Canadian Oil Sands' reserves and resources can be found in the "Reserves Data and Other Information" section in our AIF dated February 24, 2015, which can be found at **www.sedar.com** or on our website at **www.cdnoilsands.com**.

Syncrude produces SCO by mining oil sands, extracting the bitumen from the sands, upgrading the recovered bitumen into lighter oil fractions and combining those fractions into a single SCO product. Using proven open-pit mining technologies to access the oil sands deposits results in a recovery rate of 90 per cent or more of the bitumen in place. As a large, integrated facility, production volumes reflect the capacity of the facility and the reliability of Syncrude's operations. Because a large portion of the operating costs do not vary with production, the aim is to maximize throughput in a safe and sustainable manner in order to increase production volumes and reduce per-barrel costs. While regular maintenance of operating units is required, unplanned outages of units do occur and these outages usually result in additional maintenance or repair costs and reduced production volumes, ultimately impacting revenues and operating expenses. Over the past five years, Syncrude's production has averaged about 279,000 barrels per day. Syncrude's operations are subject to a number of risks that are discussed in further detail in the "Risk Management" section of this MD&A.

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

Overview

Canadian Oil Sands Limited ("COS") generated cash flow from operations of $1,106 million ($2.28 per Share) in 2014 compared with $1,347 million ($2.78 per Share) in 2013. The decrease of $241 million largely reflects higher operating expenses and lower sales volumes, partially offset by lower current taxes.

Operating expenses in 2014 were $1.7 billion, compared with $1.5 billion in 2013, due to additional maintenance costs associated with unplanned outages on upgrading units, higher drilling and tailings management activities, and higher natural gas prices.

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 is following a disciplined, methodical approach to addressing the root causes of unplanned outages with several initiatives completed in 2014 and more planned for 2015. We expect 2015 production to range from 95 to 110 million barrels with a single-point estimate of 103 million barrels.

COS' realized SCO selling price was similar in 2014 to 2013; however, the sharp decline in crude oil prices that began in the last quarter of 2014 continued into 2015 with West Texas Intermediate ("WTI") averaging US$93 per barrel in 2014 compared to US$73 per barrel in the fourth quarter of 2014 and US$47 per barrel in January 2015.

In response to the price environment, Syncrude is undertaking a comprehensive review of costs. An effort was 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, of which $294 million, net to COS, of these potential cost reductions is incorporated in COS' 2015 Outlook. Syncrude does not anticipate these reductions to have an impact on health and safety, production or reliability initiatives.

During 2014 and early 2015, there has been a significant weakening of the Canadian dollar, which mitigated the impact of the drop in oil prices. It also resulted in an unrealized foreign exchange loss on U.S. dollar denominated long-term debt.

To preserve balance sheet strength in the short and medium term, COS reduced its quarterly dividend to $0.05 per Share for the first quarter of 2015. 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.

Progress on Syncrude's major projects continued in 2014 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 later this decade.

Highlights

	2014	2013	2012
Cash flow from operations[1] ($ millions)	**$ 1,106**	$ 1,347	$ 1,581
Per Share[1] ($/Share)	**$ 2.28**	$ 2.78	$ 3.26
Net income ($ millions)	**$ 460**	$ 834	$ 973
Per Share, Basic and Diluted ($/Share)	**$ 0.95**	$ 1.72	$ 2.01
Sales volumes[2]			
Total (mmbbls)	**34.5**	35.8	38.7
Daily average (bbls)	**94,557**	98,037	105,680
Realized SCO selling price ($/bbl)	**$ 99.24**	$ 99.55	$ 91.90
West Texas Intermediate ("WTI") (average $US/bbl)	**$ 92.91**	$ 98.05	$ 94.15
SCO premium (discount) to WTI (weighted average $/bbl)	**$ (2.55)**	$ (1.10)	$ (2.42)
Average foreign exchange rate ($US/$Cdn)	**$ 0.91**	$ 0.97	$ 1.00
Operating expenses ($ millions)	**$ 1,686**	$ 1,494	$ 1,505
Per barrel ($/bbl)	**$ 48.86**	$ 41.75	$ 38.91
Capital expenditures ($ millions)	**$ 930**	$ 1,342	$ 1,086
Dividends ($ millions)	**$ 678**	$ 678	$ 654
Per Share ($/Share)	**$ 1.40**	$ 1.40	$ 1.35
Total assets	**$ 10,014**	$ 10,190	$ 10,171
Net debt[3]	**$ 1,856**	$ 796	$ 241
Total other long-term liabilities[4]	**$ 1,594**	$ 1,194	$ 1,509

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

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

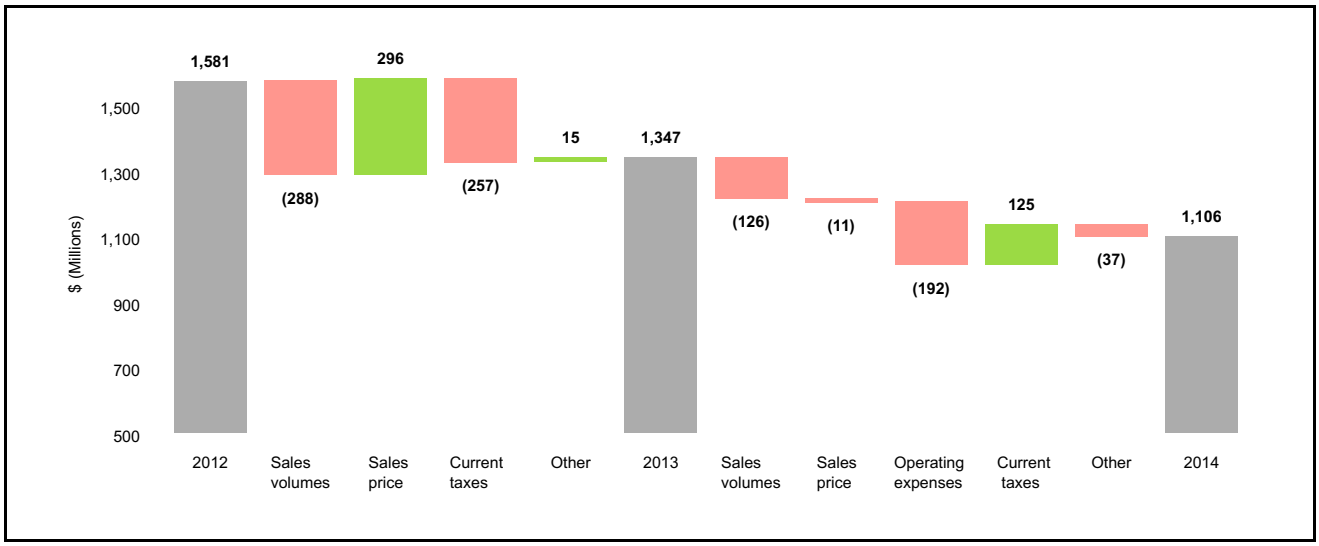
[3] Long-term debt less cash and cash equivalents. Net debt is an additional GAAP financial measure and is defined in the "Liquidity and Capital Resources" section of this MD&A.

[4] Includes non-current portions of employee future benefits, Crown royalties and the asset retirement obligation.

Review of Financial Results

Canadian Oil Sands' unaudited fourth quarter 2014 results were discussed and analyzed in our MD&A released on January 29, 2015, which is incorporated by reference into this MD&A and is available on our website at ***www.cdnoilsands.com*** *or at* ***www.sedar.com****. The 2014 results presented in this MD&A dated February 24, 2015 are unchanged from the MD&A dated January 29, 2015.*

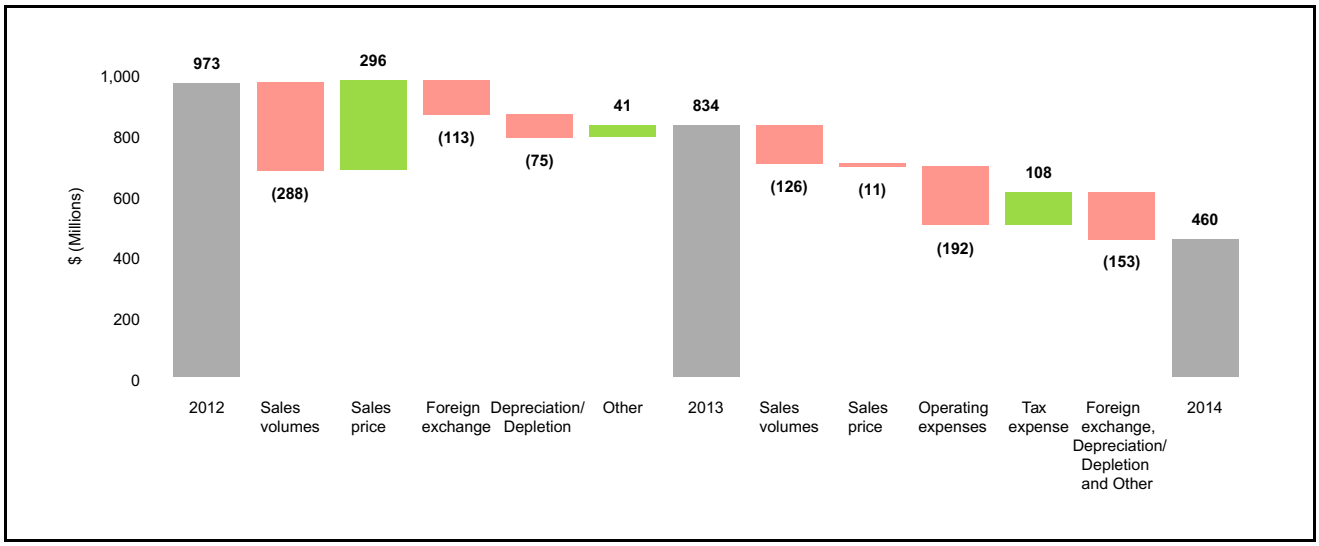
Cash Flow from Operations



Cash flow from operations decreased in 2014 from 2013, as higher operating expenses and lower sales volumes were partially offset by lower current taxes. The decrease in cash flow from operations in 2013 from 2012 mainly reflects lower sales volumes and higher current taxes, partially offset by a higher realized selling price.

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

Net Income



Canadian Oil Sands reported net income of $460 million or $0.95 per Share, in 2014 compared with $834 million, or $1.72 per Share, in 2013, primarily reflecting 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.

Net income decreased to $834 million, or $1.72 per Share, in 2013 from $973 million, or $2.01 per Share, in 2012. Lower sales volumes were largely offset by a higher realized selling price in 2013. However, the Corporation recorded a foreign exchange loss in 2013 as opposed to a foreign exchange gain in 2012 and recorded a higher depreciation and depletion expense in 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]	**2014**	**2013**	**2012**
Sales net of crude oil purchases and transportation expense	**$ 99.06**	$ 99.63	$ 92.20
Operating expense	**(48.86)**	(41.75)	(38.91)
Crown royalties	**(6.39)**	(4.85)	(5.21)
	$ 43.81	$ 53.03	$ 48.08
Development expense	**$ (4.34)**	$ (3.72)	$ (2.62)
Administration and insurance expenses	**(1.05)**	(1.16)	(0.94)
Depreciation and depletion expense	**(14.89)**	(13.36)	(10.41)
Net finance expense	**(1.36)**	(1.21)	(1.45)
Foreign exchange gain (loss)	**(3.87)**	(2.46)	0.65
Tax expense	**(4.94)**	(7.79)	(8.15)
	(30.45)	(29.70)	(22.92)
Net income per barrel	**$ 13.36**	$ 23.33	$ 25.16
Sales volumes (mmbbls)[2]	**34.5**	35.8	38.7

[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 as well as decreasing sales volumes over the three years presented.

Sales Net of Crude Oil Purchases and Transportation Expense

($ millions, except where otherwise noted)	**2014**	**2013**	**2012**	**Changes 2014 vs 2013**	**Changes 2013 vs 2012**
Sales[1]	**$ 3,912**	$ 4,208	$ 3,905	$ (296)	$ 303
Crude oil purchases	**(443)**	(591)	(295)	148	(296)
Transportation expense	**(50)**	(52)	(44)	2	(8)
	$ 3,419	$ 3,565	$ 3,566	$ (146)	$ (1)
Sales volumes[2]					
Total (mmbbls)	**34.5**	35.8	38.7	(1.3)	(2.9)
Daily average (bbls)	**94,557**	98,037	105,680	(3,480)	(7,643)
Realized SCO selling price[3] (average $Cdn/bbl)	**$ 99.24**	$ 99.55	$ 91.90	$ (0.31)	$ 7.65
West Texas Intermediate ("WTI") (average $US/bbl)	**$ 92.91**	$ 98.05	$ 94.15	$ (5.14)	$ 3.90
SCO premium (discount) to WTI (weighted-average $Cdn/bbl)	**$ (2.55)**	$ (1.10)	$ (2.42)	$ (1.45)	$ 1.32
Average foreign exchange rate ($US/$Cdn)	**$ 0.91**	$ 0.97	$ 1.00	$ (0.06)	$ (0.03)

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

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

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

Sales, net of crude oil purchases and transportation expense decreased by $146 million in 2014, as a result of lower sales volumes relative to 2013.

- Sales volumes in 2014 averaged 94,600 barrels per day, down from sales volumes of 98,000 barrels per day in 2013 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, reflecting a weaker U.S. dollar WTI price and a deterioration of the SCO differential to WTI, offset by a weaker average Canadian dollar.

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

- The 2013 realized selling price increased by $8 per barrel relative to 2012, reflecting a stronger U.S. dollar WTI price, a weaker average Canadian dollar, and an improvement in the SCO differential to WTI.
- Sales volumes in 2013 were lower than in 2012, reflecting delays completing the Coker 8-1, LC Finer and secondary upgrading unit turnarounds.

The Corporation purchases crude oil from third parties to fulfill sales commitments with customers when there are shortfalls in Syncrude's production and to facilitate certain transportation arrangements. Higher crude oil purchases in 2013 reflect higher purchased volumes to support production shortfalls and transportation arrangements, as well as higher crude oil prices.

Operating Expenses

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

	2014		2013		2012	
	$ millions	$ per bbl	$ millions	$ per bbl	$ millions	$ per bbl
Production and maintenance[1]	**$ 1,335**	**$ 38.68**	$ 1,217	$ 34.01	$ 1,242	$ 32.12
Natural gas and diesel purchases[2]	**207**	**6.01**	144	4.02	125	3.22
Syncrude pension and incentive compensation	**101**	**2.92**	98	2.74	97	2.52
Other[3]	**43**	**1.25**	35	0.98	41	1.05
Total operating expenses	**$ 1,686**	**$ 48.86**	$ 1,494	$ 41.75	$ 1,505	$ 38.91

[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. Natural gas prices averaged $4.36 per GJ in 2014, $3.09 per GJ in 2013 and $2.34 per GJ in 2012. Diesel prices averaged $0.99 per litre in 2014, $0.91 per litre in 2013 and $0.90 per litre in 2012.

[3] Includes fees for management services provided by Imperial Oil Resources, insurance premiums, and greenhouse gas emissions levies.

Operating expenses increased by $192 million in 2014 compared with 2013 due to additional maintenance costs associated with unplanned outages on upgrading units, higher drilling and tailings management activities and higher natural gas prices.

In 2013, operating expenses decreased by $11 million relative to 2012, reflecting lower production costs, primarily due to lower mining volumes. The decrease in production costs was partially offset by higher maintenance costs associated with extended turnarounds and unplanned outages in extraction.

The increase in per barrel operating expenses also reflects a relatively high proportion of fixed operating costs over lower sales volumes over the past three years.

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.

	2014		2013[3]		2012	
($ per barrel)	Bitumen	SCO	Bitumen	SCO	Bitumen	SCO
Bitumen production	**$ 29.08**	**$ 34.56**	$ 26.91	$ 32.52	$ 25.54	$ 29.54
Internal fuel allocation[1]	**2.92**	**3.47**	2.52	3.05	2.15	2.48
Total bitumen production expenses	**$ 32.00**	**$ 38.03**	$ 29.43	$ 35.57	$ 27.69	$ 32.02
Upgrading[2]		**$ 14.30**		$ 9.23		$ 9.37
Less: internal fuel allocation[1]		**(3.47)**		(3.05)		(2.48)
Total upgrading expenses		**$ 10.83**		$ 6.18		$ 6.89
Total operating expenses		**$ 48.86**		$ 41.75		$ 38.91
(thousands of barrels per day)						
Syncrude production volumes	**307**	**258**	323	267	331	287
Canadian Oil Sands sales volumes		**95**		98		106

[1] Reflects energy generated by the upgrader that is used in the bitumen production process and is valued by reference to natural gas and diesel prices.

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

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

Crown Royalties

Crown royalties were $221 million in 2014, $174 million in 2013, and $202 million in 2012. The increase in 2014 relative to 2013 mainly reflects lower deductible capital expenditures. The decrease in 2013 Crown royalties from 2012 was due to higher deductible capital expenditures, reflecting costs to replace or relocate Syncrude mine trains and to support tailings management plans, and lower bitumen production volumes.

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

The Syncrude RAA requires that bitumen be valued by a formula that references the value of bitumen based on a Canadian heavy oil reference price adjusted to reflect quality and location differences between Syncrude's bitumen and the Canadian reference price bitumen. In addition, the agreement provides that a minimum bitumen value, or "floor price", may be imposed in circumstances where Canadian heavy oil prices are temporarily suppressed relative to North American heavy oil prices.

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

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

Under the Syncrude Bitumen Royalty Option Agreement, costs related to capital expenditures that were deducted in computing Crown royalties on SCO prior to 2009, and are no longer associated with the royalty base, are recaptured by the Crown. These recapture amounts vary based on Government of Canada long-term bond rates and result in approximately $25 million of additional Crown royalties per year, net to the Corporation, over a 25-year period ending in 2033.

Subsequent to 2015, Syncrude's Crown royalties will be determined pursuant to the generic Crown royalty framework that applies to most of the oil sands industry in Alberta. Details regarding the framework can be found in our AIF dated February 24, 2015.

Development Expenses

Development expenses totaled $150 million in 2014, $133 million in 2013 and $101 million in 2012. Development expenses consist primarily of expenditures relating to capital programs, which are expensed, such as pre-feasibility engineering, technical and support services, research, evaluation drilling and regulatory and stakeholder consultation expenditures. Development expenses can vary from period to period depending on the number of projects underway and the development stage of the projects. The increase in development expenses over the past three years was related to Syncrude's major projects, which are nearing completion.

Depreciation and Depletion Expense

Depreciation and depletion expense increased to $514 million in 2014 from $478 million in 2013 and $403 million in 2012. The increase over the three-year period is attributable to new depreciation charges on the Syncrude Emissions Reduction (SER) project that was completed in 2012 and significant tailings and lease development projects that were completed in 2013. A portion of the increase in 2013 relative to 2012 reflects a $35 million write-off of Arctic natural gas assets.

Net Finance Expense

($ millions)	**2014**	**2013**	**2012[1]**
Interest costs on long-term debt	**$ 119**	$ 123	$ 117
Less capitalized interest on long-term debt	**(111)**	(107)	(92)
Interest expense on long-term debt	**$ 8**	$ 16	$ 25
Interest expense on employee future benefits	**14**	16	17
Accretion of asset retirement obligation	**28**	26	26
Interest income	**(3)**	(14)	(12)
Net finance expense	**$ 47**	$ 44	$ 56

[1] *Net finance expense in 2012 has been adjusted to reflect the amendments to IAS 19, Employee Benefits.*

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, partially offset by a weaker Canadian dollar. Interest expense on long-term debt decreased over the three-year period because a growing portion of interest costs were capitalized, concurrent with higher spending on major capital projects. Interest income was lower in 2014 relative to 2013 and 2012 due to lower cash balances.

Foreign Exchange

($ millions)	2014	2013	2012
Foreign exchange (gain) loss – long-term debt	**$ 145**	$ 115	$ (28)
Foreign exchange (gain) loss – other	**(11)**	(27)	3
Total foreign exchange (gain) loss	**$ 134**	$ 88	$ (25)

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.

The Canadian dollar weakened in 2013 and 2014 with a $US/$Cdn exchange rate of $1.01 at December 31, 2012, $0.94 at December 31, 2013 and $0.86 at December 31, 2014.

In 2012, the Canadian dollar strengthened from a $US/$Cdn exchange rate of $0.98 at December 31, 2011 to $1.01 at December 31, 2012.

Tax Expense

($ millions)	2014	2013	2012
Current tax expense	**$ 172**	$ 297	$ 40
Deferred tax expense (recovery)	**(1)**	(18)	275
Total tax expense	**$ 171**	$ 279	$ 315

Lower total tax expense over the past three years reflects lower net income before taxes.

Lower current tax in 2012 was a result of tax pools that were available to shelter a majority of the income earned that year. Also, taxes on a portion of income generated in the Corporation's partnership in 2012 were deferred to 2013.

Current tax in 2014 was lower than in 2013 mainly due to lower taxable income generated from the Corporation's partnership.

Asset Retirement Obligation

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

Canadian Oil Sands' asset retirement obligation increased from $896 million at December 31, 2013 to $1.2 billion at December 31, 2014 primarily due to a decrease in the interest rate used to discount future reclamation and closure 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, the annual review of estimated future reclamation and closure expenditures resulted in an $89 million increase in the discounted asset retirement obligation, or a $215 million increase in the undiscounted obligation, reflecting the planned extension of the Mildred Lake mine and higher costs for material movement.

In 2013, the Corporation's asset retirement obligation decreased primarily due to an increase in the interest rate used to discount future reclamation and closure expenditures from 2.25 per cent at December 31, 2012 to 3.25 per cent at December 31, 2013.

Pension and Other Post-Employment Benefit Plans

($ millions)	2014	2013
Accrued benefit liability, beginning of year	**$ 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 year	**$ 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.

The $130 million decrease in the accrued benefit liability in 2013 reflects a 50 basis point increase in the interest rate used to discount the accrued benefit liability, higher-than-estimated returns on plan assets and contributions to the plans in excess of the current period expenses. These factors were partially offset by the impact of an increase in the estimated average lifespan of the plans' beneficiaries as a result of new actuarial standards.

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.
- Environmental and tailings management activities to meet regulatory requirements have contributed to increasing operating expenses.
- 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, increasing future depreciation and depletion expense.
- Fluctuations in natural gas prices have impacted operating expenses.

The supply/demand balance for crude oil affects selling prices, however, the impact of this relationship has not displayed significant seasonality. Syncrude production levels may likewise not display seasonal patterns or trends. While maintenance and turnaround activities are typically scheduled in the spring and fall, the timing of unit outages cannot always be precisely scheduled and unplanned outages may occur. The costs of major turnarounds are capitalized as property, plant and equipment and depreciated over the period until the next scheduled turnaround. The costs of all other turnarounds and maintenance activities are expensed in the period incurred, which can result in volatility in quarterly operating expenses. Given the relatively fixed nature of operating costs, all turnaround and maintenance activities impact per-barrel operating expenses because sales volumes are lower in the periods when this work is occurring.

Capital Expenditures

($ millions)	**2014**	**2013**	**2012**
Major Projects			
Mildred Lake Mine Train Replacement	**$ 289**	$ 457	$ 362
Centrifuge Tailings Management	**273**	229	69
Aurora North Mine Train Relocations	**—**	149	98
Aurora North Tailings Management	**—**	77	123
Capital expenditures on major projects	**$ 562**	$ 912	$ 652
Regular maintenance			
Capitalized turnaround costs	**$ 71**	$ 54	$ 76
Other	**186**	269	266
Capital expenditures on regular maintenance	**$ 257**	$ 323	$ 342
Capitalized interest	**$ 111**	$ 107	$ 92
Total capital expenditures	**$ 930**	$ 1,342	$ 1,086

Capital expenditures decreased to $930 million in 2014 from $1,342 million in 2013 and $1,086 million in 2012, 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 Mildred Lake Mine Train Replacement project was completed in 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 as at December 31, 2014. These obligations and commitments represent future cash payments that the Corporation is required to make under existing contractual agreements that it has entered into either directly, or as a 36.74 per cent owner in Syncrude. The principal payments and accrued interest due on long-term debt, the asset retirement obligation and the pension plan solvency deficiency payments are recognized as liabilities in the Corporation's consolidated financial statements. The other contractual obligations and commitments are not recognized as liabilities.

	Cash Outflow By Period				
($ millions)	**Total**	**2015**	**2016 to 2017**	**2018 to 2019**	**After 2019**
Long-term debt[1]	$ 2,924	$ 117	$ 233	$ 785	$ 1,789
Asset retirement obligation[2]	2,375	18	35	73	2,249
Pipeline and storage[3]	2,294	67	129	173	1,925
Other[4]	390	178	117	31	64
	$ 7,983	$ 380	$ 514	$ 1,062	$ 6,027

1 Reflects principal and interest payments on Senior Notes and excludes $140 million drawn on our credit facilities.

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 that are still subject to regulatory approval.

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 has reduced its quarterly dividend to $0.05 per Share for the first quarter of 2015 to align with the current crude oil 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.

Liquidity and Capital Resources

As at *($ millions, except % amounts)*	December 31 2014	December 31 2013	December 31 2012
Long-term debt[1, 2]	**$ 1,889**	$ 1,602	$ 1,794
Cash and cash equivalents[1]	**(33)**	(806)	(1,553)
Net debt[3,4]	**$ 1,856**	$ 796	$ 241
Shareholders' equity[1]	**$ 4,497**	$ 4,732	$ 4,515
Total net capitalization[3,5]	**$ 6,353**	$ 5,528	$ 4,756
Total capitalization[3,6]	**$ 6,386**	$ 6,334	$ 6,309
Net debt-to-total net capitalization[3,7] (%)	**29**	14	5
Long-term debt-to-total capitalization[3,8] (%)	**30**	25	28

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

Net debt rose in 2014 to $1,856 million from $796 million in 2013 and $241 million in 2012, concurrent with higher spending on major capital projects over the three-year period. In addition, a weakening Canadian dollar over the same period increased the Canadian dollar equivalent value of long-term debt. As a result, net debt-to-total net capitalization increased to 29 per cent at December 31, 2014 from 14 per cent at December 31, 2013 and five per cent at December 31, 2012.

To supplement cash flow from operations and in preparation for a Senior Note maturity, Canadian Oil Sands issued U.S. $700 million of unsecured Senior Notes in March 2012. In August 2013, Canadian Oil Sands repaid U.S. $300 million of Senior Notes upon maturity.

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

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

At December 31, 2014, Canadian Oil Sands had a working capital deficiency of $75 million. Based on the assumptions in our 2015 Outlook, Canadian Oil Sands will have sufficient cash flow from operations to fund the working capital deficiency.

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.

Shareholders' Capital and Trading Activity

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

Options are share-based compensation awards which provide the holder with the right to purchase a Share at an exercise price determined at the date of grant. For options granted prior to 2011, exercise prices are reduced by dividends over a threshold amount. Subject to certain exemptions relating to retirement, death or termination, the options vest by one-third following the date of grant in each of the first three years and expire seven years after the date of grant. At December 31, 2014, there were 3,852,403 options outstanding with a weighted-average exercise price of $23.44 per option. Thus far in 2015, 240,440 options have expired and 1,757,940 options were granted.

PSUs are share-based compensation awards with a settlement value based on the Corporation's Share price at the end of a three-year vesting period, dividends paid by the Corporation during the vesting period and the total Shareholder return generated by the Corporation relative to a comparator group, comprised of other industry peers, over the vesting period. PSUs are settled in cash, in Shares purchased in the secondary market, or in Shares issued from treasury. At December 31, 2014, there were 314,094 PSUs outstanding with an accrued value of approximately $0.5 million. Thus far in 2015, 89,476 PSUs have matured and 222,781 PSUs were granted.

RSUs are share-based compensation awards with a settlement value based on the Corporation's Share price at the end of a three-year vesting period and dividends paid by the Corporation during that period. RSUs are settled in cash, in Shares purchased in the secondary market or in Shares issued from treasury. At December 31, 2014, there were 36,996 RSUs outstanding with an accrued value of approximately $0.2 million. Thus far in 2015, 7,929 RSUs have matured and 41,242 RSUs were granted.

DSUs are share-based compensation awards with a settlement value based on the Corporation's Share price on the settlement date and dividends paid by the Corporation while the DSUs are outstanding. DSUs vest immediately upon grant and settle when a director's service ceases. DSUs are awarded and settled in cash, in Shares purchased in the secondary market or in Shares issued from treasury. At December 31, 2014 and February 24, 2015, there were 137,138 DSUs outstanding with an accrued value of approximately $1.4 million.

The share-based compensation awards outstanding at February 24, 2015 represent less than one per cent of total Shares outstanding on a Share-equivalent basis. More detail on the Corporation's options, PSUs, RSUs and DSUs can be found in the Corporation's Management Proxy Circular dated March 17, 2014, which is available on our website at **www.cdnoilsands.com** or at **www.sedar.com**.

The Corporation's shares trade on the Toronto Stock Exchange under the symbol COS. On December 31, 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. A table summarizing the Shares issued in 2014 is included in Note 13 to the consolidated financial statements.The following table summarizes the trading activity for 2014.

	Total 2014	Fourth Quarter 2014	Third Quarter 2014	Second Quarter 2014	First Quarter 2014
Share price					
High	24.68 $	20.74 $	24.37 $	24.68 $	23.39
Low	8.20 $	8.20 $	20.15 $	22.31 $	19.64
Close	10.42 $	10.42 $	20.66 $	24.18 $	23.19
Volume of Shares traded (millions)	476.3	220.8	81.7	86.1	87.7
Weighted average Shares outstanding (millions)	484.6	484.6	484.6	484.6	484.6

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

Critical Accounting Estimates and Judgments

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

Critical Accounting Estimates

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

b) Employee Future Benefits
Canadian Oil Sands accrues its obligations for Syncrude Canada's post-employment benefits using actuarial and other assumptions to estimate the accrued benefit liability and the expense related to the current period. Changes in these assumptions or plan asset returns not included in the accretion of the accrued benefit liability give rise to re-measurement gains and losses. A one per cent decrease in the interest rate used to discount future benefit payments would result in a $232 million increase in Canadian Oil Sands' accrued benefit liability, a $14 million increase in 2014 current service costs and a $3 million decrease in the 2014 interest expense, while a one per cent increase in the interest rate would result in a $178 million decrease in the accrued benefit liability, a $10 million decrease in 2014 current service costs and a $2 million increase in the 2014 interest expense.

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

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

Critical Accounting Judgments

a) Joint Arrangements

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

b) Asset Retirement Obligation

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

c) Crown Royalties

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

d) Taxes

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

Accounting Pronouncements Not Yet Adopted

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

Financial Instruments

The Corporation's financial instruments include cash and cash equivalents, accounts receivable, investments held in a reclamation trust, accounts payable and accrued liabilities, and long-term debt. The carrying values and fair values of the Corporation's financial instruments are disclosed in Note 18 to the consolidated financial statements. The risks associated with these instruments and the Corporation's management of these risks is disclosed in the "Financial Market Risks" portion of the "Risk Management" section of this MD&A.

Risk Management

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

There are a number of risks that could impact Canadian Oil Sands' cash flow from operations and net income and, therefore, the dividends ultimately paid to Shareholders. Cash flow from operations is sensitive to a number of factors including: Syncrude production; sales volumes; oil and natural gas prices; oil price differentials; foreign currency exchange rates; operating, development, administration and financing expenses; Crown royalties; taxes; and regulatory and environmental risks. Dividends may also be impacted by Canadian Oil Sands' financing requirements for capital expenditures. Sensitivities to the most significant items affecting cash flow from operations are provided in the "2015 Outlook" section of this MD&A.

The following discusses the significant risks that impact Canadian Oil Sands' cash flow from operations, net income, corporate reputation and EH&S performance. More information regarding Canadian Oil Sands' risks is available in its AIF dated February 24, 2015, which is available on our website at **www.cdnoilsands.com** or at **www.sedar.com**.

Crude Oil Price Risk

The financial results and financial condition of Canadian Oil Sands are significantly impacted by crude oil prices.

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

During the past three years, WTI monthly average prices have fluctuated from U.S. $107 per barrel to recent lows of U.S. $47 per barrel. This monthly average WTI benchmark has traded at discounts to monthly European Brent prices ranging from U.S. $2 per barrel to U.S. $23 per barrel over the same period. Canadian Oil Sands' realized SCO to WTI monthly average price differential has ranged from a $10 per barrel premium to a $16 per barrel discount over the last three years.

A prolonged period of low crude oil prices could affect the value of our interest in the Syncrude Project, the level of capital investment and could ultimately result in curtailment of production. Any substantial and extended decline in our realized SCO price would have an adverse effect on Canadian Oil Sands' cash flow from operations and would likely affect our ability to pay dividends and to repay our debt obligations. A prolonged period of low crude oil prices could also result in the impairment of Canadian Oil Sands' assets, which would likely have a negative impact on our financial condition.

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

Canadian Oil Sands prefers to remain unhedged on crude oil prices; however, during periods of significant capital spending and financing requirements, management may hedge prices to reduce cash flow volatility. Canadian Oil Sands does not currently have any crude oil price hedges in place, nor were any in place during 2014 or 2013; instead, the Corporation is managing its exposure to crude oil price risk by maintaining a strong balance sheet and ensuring adequate sources of financing are available.

Operational Risk

Operational outages

Our investment in Syncrude is our only producing asset and our results depend on Syncrude's operations. The Syncrude Project is a 24-hour per day, 365-day per year operation with complex, inter-dependent facilities. The shutdown of any part of Syncrude's operation could significantly impact the production of SCO. Causes of production shortfalls and/or interruptions may include, but are not limited to: equipment failures; design errors; operator errors; extended weather-related shutdowns; or catastrophic events such as fires, storms, explosions or dam failures.

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

The geology of the oil sands and the limestone base under the oil sands could pose the risk of underground aquifers entering and flooding the mine area, thereby reducing the amount of ore available for mining and reducing tailings storage capacity.

Syncrude's operations use electrical power generated within the Syncrude Project as well as electrical power sourced from the Alberta power grid. An interruption in either the power supply generated within Syncrude or sourced from the Alberta power grid would have a negative impact on Syncrude's production.

The Syncrude Project incorporates operational risk management programs as well as support from Imperial Oil/ExxonMobil through a Management Services Agreement ("MSA"). The MSA provides Syncrude with access to ExxonMobil's full suite of operational, environmental, health and safety systems, all of which have been implemented at Syncrude since the MSA was executed. These organizations apply robust engineering and design standards and use maintenance and inspection procedures to mitigate operational risk.

Syncrude is currently undertaking various operational optimization initiatives. 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 completed the replacement of heat exchangers in its hydrogen plants to prevent production losses as a result of unplanned hydrogen plant outages.

Canadian Oil Sands also reduces exposure to some operational risks by maintaining appropriate levels of insurance, primarily business interruption ("BI") and property insurance. The Corporation has purchased total coverage of approximately U.S. $1.65 billion of combined BI and property insurance, net to Canadian Oil Sands, in case Syncrude experiences an event causing a loss or interruption of production, such as a fire or explosion at the operating facilities. The BI insurance is subject to an approximate average 70-day self-retention period. While such insurance mitigates the impact of certain operational upsets, insurance is unlikely to fully protect against catastrophic events or prolonged shutdowns.

Project execution

There are risks associated with the execution of Syncrude's major projects and future growth and development projects. These risks include: our ability to obtain the necessary regulatory, environmental and other approvals; Syncrude's ability to successfully consult with local stakeholders and Aboriginal groups; the impact of technology on operations and processes and how new complex technology may not perform as expected; risks relating to schedule, resources and costs, including the availability and cost of materials, equipment and qualified personnel, especially skilled construction and engineering labour; the impact of general economic, business and market conditions; the impact of weather conditions; our ability to finance growth if commodity prices were to stay at low levels for an extended period; the impact of new entrants to the oil sands business which could take the form of competition for skilled people, increased demands on the Wood Buffalo Region, Alberta infrastructure (for example, housing, roads and schools) and price competition for products sold into the marketplace; and the effect of changing government regulation and public expectations in relation to the impact of oil sands development on the environment.

Syncrude's strategic planning function, whose mandate includes the identification and evaluation of capital projects, helps manage these risks with support from Imperial Oil/ExxonMobil, who provide proprietary capital project management systems under the MSA.

Competition Risk

Syncrude faces risks associated with competition amongst other oil sands producers for limited resources, in particular skilled labour, in the Wood Buffalo Region where Syncrude and other oil sands producers operate. The demand for these resources creates cost pressure on products and services to operate, maintain and grow Syncrude's facilities. In addition, the competition for skilled labour has put pressure on recruiting, training and retaining the necessary personnel to operate Syncrude's facilities effectively and efficiently. Limitations on the availability of an experienced workforce, including high attrition rates, increases the risk of design error or operator error.

Any increase in mining and manufacturing activity causes longer procurement lead times for many materials used in the Syncrude operation. Over the last several years, Syncrude has had to place an emphasis on maintenance planning and scheduling activities, with special attention to ensuring that adequate spare parts inventories are on hand at all times. Still, certain suppliers have been challenged to keep ahead of increasing demand for maintenance and operating materials. If Syncrude cannot obtain such materials for its operations, production may be impacted and consequently, the sales volumes and cash flow from operations for Canadian Oil Sands will be negatively impacted.

The petroleum industry is highly competitive, including the distribution and marketing of petroleum products. Substantially all of our production is currently consumed by refineries in Canada and the United States for further processing into refined products. We compete for these markets against other sources of crude oil and these refineries compete against other refineries and imported refined products. The petroleum industry also competes with other industries in supplying energy, fuel and related products to consumers. The price received for SCO or our ability to deliver SCO may be limited with negative implications on revenues and cash flow from operations if (i) supply of crude oil or refined products increases, (ii) North American and/or global demand for crude oil or products decreases, or (iii) if planned or unplanned shutdowns of refineries generally or of refineries that process SCO occurs.

To mitigate the risk of competition for skilled labour, Syncrude Canada is focused on attracting and retaining experienced and skilled labour. Syncrude Canada offers competitive industry compensation to employees and contract staff and has employee retention and housing programs to deal with the increased demands on local infrastructure. As well, Syncrude's reputation as a socially and environmentally responsible company with industry-leading safety performance supports the company in attracting and retaining labour. Lastly, Syncrude Canada's Management Services Agreement with Imperial Oil enables Syncrude to access people and expertise from Imperial Oil and its affiliates, including ExxonMobil.

To mitigate other competitive risks that could increase operating, development and capital costs, Syncrude formed a Cost Analysis and Strategy Taskforce in 2014 to identify more efficient and effective ways to conduct its business.The aim is to reduce the cost structure at Syncrude and improve profitability.

Marketing and Transportation Risk

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

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

Pipeline and rail access and capacity, transportation costs and tariffs, market access and price differentials with competing products are all factors that can affect sales volumes and the realized selling price for SCO. As crude oil production rises and traditional light crude oil refineries finalize projects to refine heavy and sour crudes, we anticipate some of our SCO will be consumed at more distant delivery points. Pipeline transportation costs will rise, and COS' price realization may be negatively

impacted by these costs as well as supply and demand factors in these markets. As a result, our realized selling price for SCO may be negatively impacted in the future.

Canadian Oil Sands has committed capacity on a number of proposed pipelines to help secure future market access for our product and enhance our marketing flexibility. We have also secured storage capacity in the Edmonton area and have entered term sales agreements with customers in new markets. As of December 31, 2014, we have commitments on take-or-pay contracts totaling approximately $2.3 billion due over the next 24 years for the transportation and storage of crude oil.

Environmental Risks

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

a) Tailings Management

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

Directive 074 allows the AER to take enforcement action against companies that fail to meet industry-wide tailings management criteria. Enforcement actions range from non-compliance fees to increased inspections and suspension or cancellation of approvals. Directive 074 is performance-based, and gives companies the flexibility to select the technology most applicable to their operation in order to achieve the performance criteria. The TMF, which is anticipated to be finalized in 2015, will be an overarching framework to manage all aspects of tailings including: volume of fluid fine tails, size of tailings ponds, greenhouse gas impact, water use/re-use/return; progressive reclamation and the use of research and development. The details of the TMF are not yet known.

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

b) Water Access and Emissions

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

Through Canada's Oil Sands Innovation Alliance (COSIA), Syncrude is collaborating with other oil sands producers to enable responsible and sustainable growth while delivering accelerated improvement in environmental performance through collaborative action and innovation. This will involve sharing technical information, collaborating on research and development, eliminating monetary and intellectual property barriers and working to develop appropriate frameworks so that information is organized, kept current and verified through peer review.

Syncrude Joint Venture Ownership Risk

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

FInancial Market Risks

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

a) Foreign Currency Risk

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

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

As at December 31, 2014, portions of Canadian Oil Sands' cash and cash equivalents, accounts receivable, accounts payable and long-term debt were denominated in U.S. dollars. Based on these U.S. dollar closing balances, 2014 net income and comprehensive income would have increased/decreased by approximately $20 million for every $0.01 decrease/increase in the value of the U.S./Cdn currency exchange rate.

b) Interest Rate Risk

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

The principal exposure relates to the Corporation's long-term debt, in particular the refinancing of our fixed rate long-term debt on maturity or, to the extent there are amounts drawn, our variable-rate credit facilities. The next Senior Note maturity is in 2019 and, at December 31, 2014, $140 million was drawn on the credit facilities. The interest rate the Corporation pays on its long-term debt is also impacted by its credit ratings.

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

Additional information about interest rate sensitivity for the Corporation's employee future benefits is provided in the "Critical Accounting Estimates and Judgments" section of this MD&A.

c) Credit Risk

Canadian Oil Sands is exposed to credit risk primarily through customer accounts receivable balances, financial counterparties with whom the Corporation has invested its cash and cash equivalents and with its insurance providers in the event of an outstanding claim.

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

Canadian Oil Sands carries credit insurance on some counterparties to help mitigate a portion of the impact should a loss occur and continues to transact primarily with investment-grade customers. The Corporation's maximum credit exposure related to customer receivables was $185 million at December 31, 2014, all of which were paid in January 2015. Substantially all accounts receivable are due from investment grade energy producers, financial institutions, and refinery-based customers, and our cash and cash equivalents are invested in deposits and bankers' acceptances with high-quality senior banks as well as investment grade commercial paper. At present, there are no financial assets that are past their maturity or impaired due to credit risk-related defaults.

d) Liquidity Risk

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

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

Canadian Oil Sands actively manages its liquidity through cash, debt and equity management strategies. Such strategies encompass, among other factors: having adequate sources of financing available through bank credit facilities, estimating future cash flow from operations based on reasonable production and pricing assumptions, understanding operating commitments and future capital expenditure requirements and complying with debt covenants. In addition, over the long-term, Canadian Oil Sands spreads out the maturities of its various debt tranches, maintains a prudent capital structure and is in compliance with its debt covenants.

More information regarding the available credit facilities and contractual maturities of Canadian Oil Sands' long-term debt can be found in Note 10 to the consolidated financial statements.

Actual Results Compared to Outlook

In its 2013 annual MD&A, Canadian Oil Sands estimated 2014 Syncrude production volumes, cash flow from operations and capital expenditures (the "original estimate" or "original Outlook"). During 2014 the Corporation revised these estimates in quarterly reports and information releases to reflect actual results for each quarter and new significant information as it became available (the "revised estimate" or "revised Outlook").

	2014 Outlook		
(millions of Canadian dollars, unless noted otherwise)	Original[1]	Revised[2]	2014 Actual
Operating assumptions			
Syncrude production (million bbls)	105	97	94
Canadian Oil Sands sales (million bbls)	38.6	35.6	34.5
Sales, net of crude oil purchases and transportation	$ 3,386	$ 3,634	$ 3,419
Realized SCO selling price ($/bbl)	$ 87.77	$ 101.97	$ 99.24
Operating expenses	$ 1,600	$ 1,668	$ 1,686
Operating expenses per barrel ($/bbl)	$ 41.48	$ 46.80	$ 48.86
Development expenses	$ 181	$ 148	$ 150
Crown royalties	$ 128	$ 260	$ 221
Current taxes	$ 200	$ 180	$ 172
Cash flow from operations[3]	$ 1,158	$ 1,272	$ 1,106
Capital expenditure assumptions			
Major projects	$ 653	$ 575	$ 562
Regular maintenance	$ 361	$ 260	$ 257
Capitalized interest	$ 83	$ 103	$ 111
Total capital expenditures	$ 1,097	$ 938	$ 930
Business environment assumptions			
Sales Weighted Average WTI Crude Oil (USD/bbl)	$ 90.00	$ 95.00	$ 92.91
Sales Weighted Average Premium/Discount to CAD WTI ($/bbl)	$ (5.00)	$ (2.50)	$ (2.55)
Sales Weighted Average Foreign Exchange Rate (CAD:USD)	$ 0.97	$ 0.91	$ 0.91
Average AECO Natural Gas (CAD/GJ)	$ 3.50	$ 4.50	$ 4.27

[1] *Original 2014 Outlook as provided in the 2013 annual report dated February 20, 2014.*

[2] *Revised 2014 Outlook as provided in the third quarter 2014 quarterly report dated October 30, 2014.*

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

Cash flow from operations in 2014 was $1,106 million, $52 million lower than the original estimate, mainly reflecting lower sales volumes, higher Crown royalties and higher operating expenses. Partially offsetting these impacts was a higher-than-forecast realized SCO selling price.

Syncrude 2014 production of 94 million barrels was lower than Canadian Oil Sands' 105 million barrel original estimate, due to unplanned outages on Coker 8-1, sulphur processing units and a sour water treatment unit. Canadian Oil Sands' sales volumes in 2014 totalled 34.5 million barrels, or 94,600 barrels per day.

Crown royalties were $221 million in 2014, $93 million higher than the original estimate. A higher-than-forecast WTI price and a narrowing of the heavy oil differentials in the second half of 2014 resulted in higher deemed bitumen values used to calculate Crown royalties.

Operating expenses of $1,686 million were $86 million higher than our original estimate, reflecting higher-than-expected maintenance costs on upgrading units and higher-than-forecast natural gas prices. Per-barrel operating expenses of $48.86 were 18 per cent higher than the original estimate mainly as a result of lower-than-forecast sales volumes.

The realized selling price in 2014 averaged $99.24 per barrel, $11 per barrel higher than the original estimate, reflecting a U.S. $3 per barrel higher WTI oil price, a smaller discount to Canadian dollar WTI and a weaker Canadian dollar.

Current taxes were $172 million in 2014, approximately $30 million below the original estimate on lower than expected net income.

Capital expenditures in 2014 were $930 million, 15 per cent lower than our original estimate, reflecting active management of regular maintenance projects and cost savings on the Mildred Lake Mine Train Replacement project.

2015 Outlook

(millions of Canadian dollars, unless noted otherwise)		As of February 24, 2015
Operating assumptions		
Syncrude production (million bbls)		103
Canadian Oil Sands sales (million bbls)		37.8
Sales, net of crude oil purchases and transportation	$	2,387
Realized SCO selling price ($/bbl)	$	63.08
Operating expenses	$	1,521
Operating expenses per barrel ($/bbl)	$	40.19
Development expenses	$	151
Crown royalties	$	119
Current taxes	$	65
Cash flow from operations[1]	$	368
Capital expenditure assumptions		
Major projects	$	104
Regular maintenance	$	315
Capitalized interest	$	32
Total capital expenditures	$	451
Business environment assumptions		
Sales Weighted Average WTI Crude Oil (USD/bbl)	$	55.00
Sales Weighted Average Premium/Discount to CAD WTI ($/bbl)	$	(4.00)
Sales Weighted Average Foreign Exchange Rate (CAD:USD)	$	0.82
Average AECO Natural Gas (CAD/GJ)	$	3.00

[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.*

The amounts in this 2015 Outlook dated February 24, 2015 are unchanged from the 2015 Outlook dated January 29, 2015, which was provided in the fourth quarter 2014 report.

Canadian Oil Sands estimates annual Syncrude production of 95 to 110 million barrels for 2015. For the purpose of generating our 2015 Outlook, we have selected a single-point production estimate of 103 million barrels (282,200 barrels per day). Net to Canadian Oil Sands, the single-point estimate is equivalent to 37.8 million barrels (103,600 barrels per day). The production estimate reflects a planned turnaround of Coker 8-3 in the second quarter of the year.

In response to the current price environment, Syncrude is undertaking a comprehensive review of its costs. An effort was 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, relative to the budget issued on December 3, 2014. COS has incorporated $294 million of these potential cost reductions in its 2015 Outlook. Syncrude does not anticipate these reductions to have an impact on health and safety, production or reliability initiatives.

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

Outlook Sensitivity Analysis (February 24, 2015)

Variable	Annual Sensitivity	Cash Flow from Operations Increase[3] $ millions[1,2]	Cash Flow from Operations Increase[3] $ / 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 25% of net deemed bitumen revenues.*

[3] *An opposite change in each of these variables will result in the opposite cash flow from operations impact.*

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.

Controls Environment

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

We periodically review and update our internal control systems to reflect changes in our business environment. We did not materially change any of our internal controls during 2014.

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

Canadian Oil Sands, under the supervision and participation of management, including the President and Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures and the design of our internal control over financial reporting pursuant to National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings* as of December 31, 2014. In addition, management has evaluated the effectiveness of our internal control over financial reporting as of December 31, 2014 using criteria established in *Internal Control - Integrated Framework* issued in 2013 by the Committee of Sponsoring Organizations of the Treadway Commission. Based on these evaluations, Canadian Oil Sands' management concluded that:

- Our disclosure controls and procedures were effective as of December 31, 2014 to provide reasonable assurance that material information is recorded, processed, summarized and reported within the time periods specified by the applicable Canadian securities regulators. Furthermore, our disclosure controls and procedures are designed to provide reasonable assurance that material information required to be disclosed under applicable Canadian securities regulation is communicated to our management, including our President and Chief Executive Officer and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure; and
- Our internal control over financial reporting as of December 31, 2014 was designed and operated effectively to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Corporation's financial statements for external purposes in accordance with GAAP.

PricewaterhouseCoopers LLP, our auditors, have expressed an unqualified opinion on the effectiveness of Canadian Oil Sands' internal control over financial reporting as of December 31, 2014, as stated in their report.