Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") was prepared as of October 30, 2014 and should be read in conjunction with the unaudited consolidated financial statements and notes thereto of Canadian Oil Sands Limited (the "Corporation") for the three and nine months ended September 30, 2014 and September 30, 2013, the audited consolidated financial statements and MD&A of the Corporation for the year ended December 31, 2013 and the Corporation's Annual Information Form ("AIF") dated February 20, 2014. Additional information on the Corporation, including its AIF, is available on SEDAR at **www.sedar.com** or on the Corporation's website at **www.cdnoilsands.com.** References to "Canadian Oil Sands", "COS" or "we" include the Corporation, its subsidiaries and partnerships. The financial results of Canadian Oil Sands have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") and are reported in Canadian dollars, unless otherwise noted.

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Advisories

Forward-Looking Information

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

Forward-looking statements in this MD&A and the related press release include, but are not limited to, statements with respect to: the expectations regarding the 2014 annual Syncrude forecasted production range of 95 million barrels to 100 million barrels and the single-point Syncrude forecasted production estimate of 97 million barrels (35.6 million barrels net to the Corporation); the Corporation's intention to fund the Syncrude major projects primarily with cash flow from operations; all expectations regarding dividends; the expected sales, operating expenses, purchased energy costs, development expenses, Crown royalties, current taxes, capital expenditures and cash flow from operations for 2014; the expected price for crude oil and natural gas in 2014; the expected foreign exchange rates in 2014; the expected realized selling price, which includes the anticipated differential to West Texas Intermediate ("WTI") to be received in 2014 for the Corporation's product; the expectations regarding net debt; the anticipated impact of increases or decreases in oil prices, production, operating expenses, foreign exchange rates and natural gas prices on the Corporation's cash flow from operations; the belief that fluctuations in the Corporation's realized selling prices, U.S. to Canadian dollar exchange rate fluctuations, planned and unplanned maintenance activities, changes in bitumen values, changes in natural gas prices and current taxes may impact *the Corporation's financial results in the future; the expectation that the major projects will be substantially complete by the end of 2014, reducing future capital expenditures and increasing future Crown royalties and net finance expenses; the expected amount of total major project costs, anticipated target in-service dates and estimated completion percentages for the Mildred Lake mine train replacements and the centrifuge plant at the Mildred Lake mine; the cost estimates for 2014 and 2015 major project spending; the belief that with spending on major capital projects coming to an end, the Corporation is positioned to fully fund its business in the current environment of lower crude oil prices; and the estimate of prospective resources impacted by the exercise of the option on a portion of Leases 29 and 31 by certain third parties.*

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

The factors or assumptions on which the forward-looking information is based include, but are not limited to: the assumptions outlined in the Corporation's guidance document as posted on the Corporation's website at **www.cdnoilsands.com** *as of October 30, 2014 and as subsequently amended or replaced from time to time, including without limitation, the assumptions as to production, operating expenses and oil prices; the successful and timely implementation of capital projects; Syncrude's major project spending plans; the ability to obtain regulatory and Syncrude joint venture owner approval; our ability to either generate sufficient cash flow from operations to meet our current and future obligations or obtain external sources of debt and equity capital; the continuation of assumed tax, royalty and regulatory regimes and the accuracy of the estimates of our reserves and resources volumes.*

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

You are cautioned that the foregoing list of important factors is not exhaustive. Furthermore, the forward-looking statements contained in this MD&A and the related press release are made as of October 30, 2014, and unless required by law, the Corporation does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise. The forward-looking statements contained in this MD&A and the related press release are expressly qualified by this cautionary statement.

Additional GAAP Financial Measures

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

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

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

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

	Three Months Ended September 30		Nine Months Ended September 30	
($ millions)	**2014**	2013	**2014**	2013
Cash flow from operations[1]	**$ 302**	$ 340	**$ 899**	$ 956
Change in non-cash working capital[1]	**(19)**	(15)	**(468)**	160
Cash from operating activities[1]	**$ 283**	$ 325	**$ 431**	$ 1,116

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

Net debt, total net capitalization, total capitalization, net debt-to-total net capitalization and long-term debt-to-total capitalization are used by the Corporation to analyze liquidity and manage capital, as discussed in the "Liquidity and Capital Resources" section of this MD&A and in Note 12 to the unaudited consolidated financial statements for the three and nine months ended September 30, 2014.

Overview

Syncrude has substantially completed construction of the $3.9 billion Mildred Lake Mine Train Replacement project, which began commissioning in October. Significant progress was also made on Syncrude's Centrifuge Tailings Management project, which is now estimated at 90 per cent complete and on target to be in service in the first half of 2015. The cost of these projects remains in line with our lowered estimate.

Syncrude's production was 22.5 million barrels during the third quarter of 2014. The production was below our Outlook estimate due to unplanned outages in sulphur processing units, which were resolved by the end of the third quarter.

Commodity prices remained strong during the third quarter of 2014 with a realized SCO selling price of $103 per barrel compared with our annual Outlook of $99 per barrel issued in the second quarter.

Operating expenses were in line with our Outlook for the third quarter of 2014 but were slightly higher than the same quarter of 2013 due to higher natural gas prices and additional maintenance associated with the outages on the sulphur processing units.

Our revised 2014 Outlook for cash flow from operations remains at approximately $1.3 billion and net debt at September 30, 2014 was $1.7 billion. We anticipate that net debt will end the year at similar levels in the upper end of our $1 billion to $2 billion net debt targeted range. With spending on major capital projects coming to an end, COS is positioned to fully fund its business in this current environment of lower crude oil prices. We will continue to assess dividend levels in the context of crude oil prices, Syncrude operations and our objective of targeting net debt in the range of $1 billion to $2 billion, while aiming to absorb short-term market volatility over several quarters.

Highlights

	Three Months Ended September 30		Nine Months Ended September 30	
	2014	2013	**2014**	2013
Cash flow from operations[1] ($ millions)	**$ 302**	$ 340	**$ 899**	$ 956
Per Share[1] ($/Share)	**$ 0.62**	$ 0.70	**$ 1.86**	$ 1.97
Net income ($ millions)	**$ 87**	$ 246	**$ 435**	$ 642
Per Share, Basic and Diluted ($/Share)	**$ 0.18**	$ 0.51	**$ 0.90**	$ 1.32
Sales volumes[2]				
Total (mmbbls)	**8.1**	7.8	**24.6**	25.5
Daily average (bbls)	**87,787**	84,250	**89,980**	93,301
Realized SCO selling price ($/bbl)	**$ 102.58**	$ 112.55	**$ 106.49**	$ 102.83
West Texas Intermediate ("WTI") (average $US/bbl)	**$ 97.25**	$ 105.81	**$ 99.62**	$ 98.20
SCO premium (discount) to WTI (weighted average $/bbl)	**$ (3.14)**	$ 2.51	**$ (2.28)**	$ 2.74
Average foreign exchange rate ($US/$Cdn)	**$ 0.92**	$ 0.96	**$ 0.91**	$ 0.98
Operating expenses ($ millions)	**$ 385**	$ 357	**$ 1,248**	$ 1,106
Per barrel ($/bbl)	**$ 47.73**	$ 46.15	**$ 50.81**	$ 43.43
Capital expenditures ($ millions)	**$ 222**	$ 413	**$ 760**	$ 1,050
Dividends ($ millions)	**$ 170**	$ 170	**$ 509**	$ 509
Per Share ($/Share)	**$ 0.35**	$ 0.35	**$ 1.05**	$ 1.05

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

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

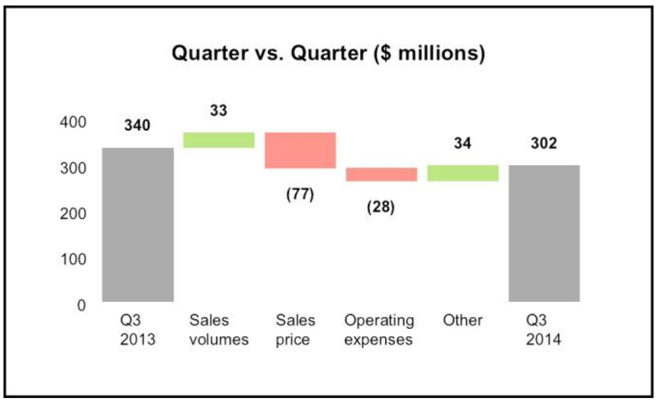
Review of Operations

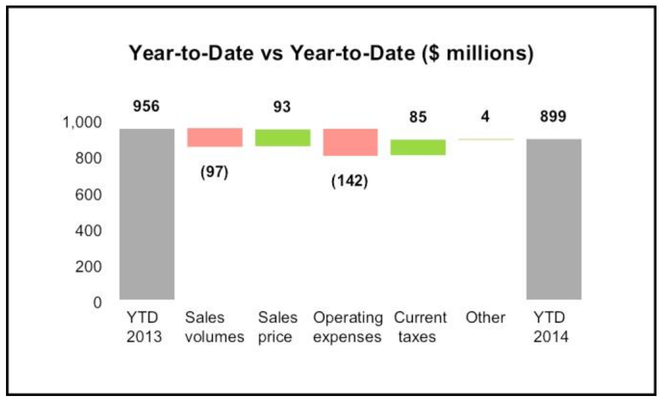
During the third quarter of 2014, Syncrude produced 22.5 million barrels, or 244,800 barrels per day, reflecting unplanned outages in sulphur processing units during the quarter. This compares with Syncrude production of 20.9 million barrels, or 227,000 barrels per day, in the third quarter 2013 when planned turnarounds on Coker 8-1, the LC Finer and a hydrotreating unit impacted production.

On a year-to-date basis, Syncrude produced 67.3 million barrels, or 246,400 barrels per day, in 2014 compared with 69.2 million barrels, or 253,400 barrels per day, in 2013. Lower year-to-date production in 2014 was due to unplanned outages on Coker 8-1 and sulphur processing units. Production in the first nine months of 2013 was impacted by delays completing scheduled turnarounds, as well as unplanned outages in extraction units.

Review of Financial Results

Cash Flow from Operations





Cash flow from operations decreased in the third quarter of 2014 from the third quarter of 2013 as a result of a lower realized selling price and higher operating expenses, partially offset by higher sales volumes.

On a year-to-date basis, cash flow from operations decreased in 2014 from 2013, as lower sales volumes and higher operating expenses were partially offset by a higher realized selling price and lower current taxes.

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

Net Income

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

($ per barrel)[1]	Three Months Ended September 30 2014	Three Months Ended September 30 2013	Change	Nine Months Ended September 30 2014	Nine Months Ended September 30 2013	Change
Sales net of crude oil purchases and transportation expense	**$ 102.57**	$ 112.52	$ (9.95)	**$ 106.23**	$ 102.85	$ 3.38
Operating expense	**(47.73)**	(46.15)	(1.58)	**(50.81)**	(43.43)	(7.38)
Crown royalties	**(7.68)**	(9.20)	1.52	**(6.54)**	(4.79)	(1.75)
	$ 47.16	$ 57.17	$ (10.01)	**$ 48.88**	$ 54.63	$ (5.75)
Development expense	**$ (4.23)**	$ (5.27)	$ 1.04	**$ (3.98)**	$ (4.10)	$ 0.12
Administration and insurance expenses	**(1.11)**	(1.43)	0.32	**(1.43)**	(1.34)	(0.09)
Depreciation and depletion expense	**(15.71)**	(13.01)	(2.70)	**(14.96)**	(12.78)	(2.18)
Net finance expense	**(1.47)**	(1.62)	0.15	**(1.51)**	(1.49)	(0.02)
Foreign exchange gain (loss)	**(9.08)**	4.03	(13.11)	**(3.18)**	(1.65)	(1.53)
Tax expense	**(5.03)**	(8.24)	3.21	**(6.16)**	(8.06)	1.90
	(36.63)	(25.54)	(11.09)	**(31.22)**	(29.42)	(1.80)
Net income per barrel	**$ 10.53**	$ 31.63	$ (21.10)	**$ 17.66**	$ 25.21	$ (7.55)
Sales volumes (mmbbls)[2]	**8.1**	7.8	0.3	**24.6**	25.5	(0.9)

[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.

Canadian Oil Sands reported net income of $87 million, or $0.18 per Share, in the third quarter of 2014 compared with $246 million, or $0.51 per Share, in the third quarter of 2013, primarily reflecting foreign exchange losses in 2014 as opposed to foreign exchange gains in 2013, as well as lower sales, net of crude oil purchases and transportation expense.

On a year-to-date basis, net income decreased to $435 million, or $0.90 per Share, in 2014 from $642 million, or $1.32 per Share, in 2013 due primarily to higher operating expenses.

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

Sales Net of Crude Oil Purchases and Transportation Expense

($ millions, except where otherwise noted)	Three Months Ended September 30 2014	2013	Change	Nine Months Ended September 30 2014	2013	Change
Sales[1]	**$ 963**	$ 1,163	$ (200)	**$ 3,018**	$ 3,160	$ (142)
Crude oil purchases	**(127)**	(281)	154	**(373)**	(505)	132
Transportation expense	**(7)**	(11)	4	**(35)**	(35)	—
	$ 829	$ 871	$ (42)	**$ 2,610**	$ 2,620	$ (10)
Sales volumes[2]						
Total (mmbbls)	**8.1**	7.8	0.3	**24.6**	25.5	(0.9)
Daily average (bbls)	**87,787**	84,250	3,537	**89,980**	93,301	(3,321)
Realized SCO selling price[3] (average $Cdn/bbl)	**$ 102.58**	$ 112.55	$ (9.97)	**$ 106.49**	$ 102.83	$ 3.66
West Texas Intermediate ("WTI") (average $US/bbl)	**$ 97.25**	$ 105.81	$ (8.56)	**$ 99.62**	$ 98.20	$ 1.42
SCO premium (discount) to WTI (weighted-average $Cdn/bbl)	**$ (3.14)**	$ 2.51	$ (5.65)	**$ (2.28)**	$ 2.74	$ (5.02)
Average foreign exchange rate ($US/$Cdn)	**$ 0.92**	$ 0.96	$ (0.04)	**$ 0.91**	$ 0.98	$ (0.07)

1 *Sales include sales of purchased crude oil and sulphur.*
2 *Sales volumes, net of purchased crude oil volumes.*
3 *SCO sales net of crude oil purchases and transportation expense divided by sales volumes, net of purchased crude oil volumes.*

The $42 million decrease in third quarter sales, net of crude oil purchases and transportation expense, reflects a lower realized selling price partially offset by higher sales volumes relative to the third quarter of 2013.

- The third quarter of 2014 realized selling price decreased by $10 per barrel, reflecting a lower U.S. dollar WTI price and a deterioration of the SCO differential to WTI, partially offset by a weaker average Canadian dollar during the quarter.
- Sales volumes in the third quarter of 2014 averaged 87,800 barrels per day, up from sales volumes of 84,300 barrels per day in the third quarter of 2013. The lower volumes in 2013 reflect planned turnarounds on upgrading units, while the third quarter of 2014 was impacted by unplanned outages in sulphur processing units.

Year-to-date sales, net of crude oil purchases and transportation expense, were largely unchanged with lower sales volumes offset by a higher realized selling price relative to 2013.

- Sales volumes in 2014 averaged 90,000 barrels per day, down from 93,300 barrels per day in the comparative 2013 period due mainly to the unplanned Coker 8-1 outage during the second quarter and unplanned outages in sulphur processing units in the third quarter.
- The year-to-date 2014 realized selling price increased by $4 per barrel, reflecting a stronger U.S. dollar WTI price and a weaker average Canadian dollar in the first nine months of the year, partially offset by a deterioration in the SCO differential to WTI.

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

Operating Expenses

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

	Three Months Ended September 30				Nine Months Ended September 30			
	2014		**2013**		**2014**		**2013**	
	$ millions	**$ per bbl**	**$ millions**	**$ per bbl**	**$ millions**	**$ per bbl**	**$ millions**	**$ per bbl**
Production and maintenance[1]	**$ 313**	**$ 38.80**	$ 300	$ 38.77	**$ 980**	**$ 39.92**	$ 909	$ 35.69
Natural gas and diesel purchases[2]	**40**	**5.01**	24	3.10	**156**	**6.35**	107	4.18
Syncrude pension and incentive compensation	**22**	**2.66**	24	3.11	**79**	**3.20**	64	2.53
Other[3]	**10**	**1.26**	9	1.17	**33**	**1.34**	26	1.03
Total operating expenses	**$ 385**	**$ 47.73**	$ 357	$ 46.15	**$ 1,248**	**$ 50.81**	$ 1,106	$ 43.43

[1] Includes non-major turnaround costs. Major turnaround costs are capitalized as property, plant and equipment.

[2] Includes costs to purchase natural gas used to produce energy and hydrogen and diesel consumed as fuel.

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

The $28 million increase in third quarter operating expenses over the comparative quarter was mainly due to higher natural gas prices and additional maintenance associated with outages on sulphur processing units.

On a year-to-date basis, operating expenses increased by $142 million due to maintenance costs associated with the unplanned Coker 8-1 outage during the second quarter, higher drilling and tailings management activities, higher natural gas prices and an increase in the value of Syncrude's long-term incentive plans. A portion of Syncrude's long-term incentive compensation is based on the market return of certain Syncrude owners' shares, the returns on which have been stronger in the first nine months of 2014 compared with 2013.

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

	Three Months Ended September 30				Nine Months Ended September 30			
	2014		**2013**		**2014**		**2013**	
($ per barrel)	**Bitumen**	**SCO**	**Bitumen**	**SCO**	**Bitumen**	**SCO**	**Bitumen**	**SCO**
Bitumen production	**$ 28.38**	**$ 33.80**	$ 27.78	$ 37.14	**$ 30.08**	**$ 36.28**	$ 27.57	$ 33.93
Internal fuel allocation[1]	**3.07**	**3.65**	2.53	3.38	**3.17**	**3.82**	2.49	3.06
Total bitumen production expenses	**$ 31.45**	**$ 37.45**	$ 30.31	$ 40.52	**$ 33.25**	**$ 40.10**	$ 30.06	$ 36.99
Upgrading[2]		**$ 13.93**		$ 9.01		**$ 14.53**		$ 9.50
Less: internal fuel allocation[1]		**(3.65)**		(3.38)		**(3.82)**		(3.06)
Total upgrading expenses		**$ 10.28**		$ 5.63		**$ 10.71**		$ 6.44
Total operating expenses		**$ 47.73**		$ 46.15		**$ 50.81**		$ 43.43
(thousands of barrels per day)								
Syncrude production volumes	**291**	**245**	303	227	**297**	**246**	312	253
Canadian Oil Sands sales volumes		**88**		84		**90**		93

1 Reflects energy generated by the upgrader that is used in the bitumen production process and is valued by reference to natural gas and diesel prices. Natural gas prices averaged $3.94 per GJ and $4.63 per GJ in the three and nine months ended September 30, 2014, respectively, and $2.59 per GJ and $3.02 per GJ in the three and nine months ended September 30, 2013, respectively. Diesel prices averaged $0.94 per litre and $1.04 per litre in the three and nine months ended September 30, 2014, respectively, and $0.92 per litre and $0.90 per litre in the three and nine months ended September 30, 2013, respectively.

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

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

Crown Royalties

Crown royalties decreased to $62 million, or $7.68 per barrel, in the third quarter of 2014 from $71 million, or $9.20 per barrel, in the third quarter of 2013 due to lower estimated bitumen values, partially offset by lower deductible capital expenditures. Additionally, the higher Crown royalty expense recorded in the third quarter of 2013 reflects refinements at that time to the estimated bitumen values for 2013 and prior years.

On a year-to-date basis, Crown royalties increased to $161 million, or $6.54 per barrel in 2014 from $122 million, or $4.79 per barrel, in the comparative 2013 period, mainly reflecting lower deductible capital expenditures in 2014.

Depreciation and Depletion Expense

Depreciation and depletion expense increased to $126 million and $367 million in the third quarter and first nine months of 2014, respectively, from $101 million and $326 million in the comparative 2013 periods. The increase reflects new depreciation charges on significant tailings and lease development projects completed in the fourth quarter of 2013.

Net Finance Expense

	Three Months Ended September 30		Nine Months Ended September 30	
($ millions)	**2014**	**2013**	**2014**	**2013**
Interest costs on long-term debt	**$ 30**	$ 33	**$ 89**	$ 98
Less capitalized interest on long-term debt	**(29)**	(29)	**(81)**	(80)
Interest expense on long-term debt	**$ 1**	$ 4	**$ 8**	$ 18
Interest expense on employee future benefits	**4**	4	**11**	12
Accretion of asset retirement obligation	**7**	7	**21**	19
Interest income	**—**	(3)	**(3)**	(11)
Net finance expense	**$ 12**	$ 12	**$ 37**	$ 38

Interest costs on the Corporation's U.S. dollar-denominated long-term debt reflect lower average outstanding debt levels in the first nine months of 2014 due to a U.S. $300 million debt repayment in August, 2013, partially offset by a weaker Canadian dollar relative to the first nine months of 2013.

Foreign Exchange

	Three Months Ended September 30		Nine Months Ended September 30	
($ millions)	**2014**	**2013**	**2014**	**2013**
Foreign exchange (gain) loss – long-term debt	**$ 80**	$ (40)	**$ 86**	$ 62
Foreign exchange (gain) loss – other	**(7)**	9	**(8)**	(20)
Total foreign exchange (gain) loss	**$ 73**	$ (31)	**$ 78**	$ 42

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 $US/$Cdn exchange rate was $0.89 at September 30, 2014 versus $0.94 at June 30, 2014 and December 31, 2013. The change in exchange rates during the third quarter generated foreign exchange losses on long-term debt of $80 million and $86 million in the three and nine months ended September 30, 2014, respectively.

In 2013, the $US/$Cdn exchange rate was $0.97 at September 30, 2013 versus $0.95 at June 30, 2013 and $1.01 at December 31, 2012. The change in exchange rates generated a foreign exchange gain on long-term debt of $40 million for the third quarter and a foreign exchange loss of $62 million on a year-to-date basis.

Tax Expense

($ millions)	Three Months Ended September 30 2014	2013	Nine Months Ended September 30 2014	2013
Current tax expense	**$ 36**	$ 32	**$ 127**	$ 212
Deferred tax expense (recovery)	**4**	32	**24**	(6)
Total tax expense	**$ 40**	$ 64	**$ 151**	$ 206

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

Asset Retirement Obligation

($ millions)	Nine Months Ended September 30 2014	Year Ended December 31 2013
Asset retirement obligation, beginning of period	**$ 896**	$ 1,102
(Increase) decrease in risk-free interest rate	**103**	(217)
Reclamation expenditures	**(17)**	(42)
Increase (decrease) in estimated reclamation and closure expenditures	**(14)**	27
Accretion expense	**21**	26
Asset retirement obligation, end of period	**$ 989**	$ 896
Less current portion	**(28)**	(28)
Non-current portion	**$ 961**	$ 868

Canadian Oil Sands' asset retirement obligation increased from $896 million at December 31, 2013 to $989 million at September 30, 2014 primarily due to a decrease in the interest rate used to discount future reclamation and closure expenditures from 3.25 per cent at December 31, 2013 to 2.75 per cent at September 30, 2014.

Pension and Other Post-Employment Benefit Plans

($ millions)	Nine Months Ended September 30 2014	Year Ended December 31 2013
Accrued benefit liability, beginning of period	**$ 308**	$ 438
Current service cost	**33**	45
Interest expense	**11**	16
Contributions	**(43)**	(109)
Re-measurement (gains) losses:		
Actual return on plan assets in excess of estimated return[1]	**(56)**	(46)
(Increase) decrease in discount rate	**47**	(91)
Other[2]	**(3)**	55
Accrued benefit liability, end of period	**$ 297**	$ 308
Less current portion	**(20)**	(82)
Non-current portion	**$ 277**	$ 226

[1] Estimated return is based on prescribed 4.5 per cent annualized rate.
[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 decreased to $297 million at September 30, 2014 from $308 million at December 31, 2013 due to higher than expected actual returns on plan assets, largely offset by a 25 basis point decrease in the interest rate used to discount the accrued benefit liability.

Summary of Quarterly Results

	2014			2013				2012 [6]
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Sales[1] ($ millions)	$ 829	$ 786	$ 995	$ 945	$ 871	$ 921	$ 828	$ 929
Net income ($ millions)	$ 87	$ 176	$ 172	$ 192	$ 246	$ 219	$ 177	$ 218
Per Share, Basic & Diluted	$ 0.18	$ 0.36	$ 0.35	$ 0.40	$ 0.51	$ 0.45	$ 0.37	$ 0.45
Cash flow from operations[2] ($ millions)	$ 302	$ 240	$ 357	$ 392	$ 339	$ 340	$ 275	$ 418
Per Share[2]	$ 0.62	$ 0.50	$ 0.74	$ 0.81	$ 0.70	$ 0.70	$ 0.57	$ 0.86
Dividends ($ millions)	$ 170	$ 169	$ 170	$ 169	$ 170	$ 169	$ 170	$ 169
Per Share	$ 0.35	$ 0.35	$ 0.35	$ 0.35	$ 0.35	$ 0.35	$ 0.35	$ 0.35
Daily average sales volumes[3] (bbls)	87,787	77,064	105,283	112,092	84,250	100,094	95,683	111,669
Realized SCO selling price ($/bbl)	$ 102.58	$ 112.04	$ 105.73	$ 91.47	$ 112.55	$ 100.90	$ 96.11	$ 89.99
WTI[4] (average $US/bbl)	$ 97.25	$ 102.99	$ 98.61	$ 97.61	$ 105.81	$ 94.17	$ 94.36	$ 88.23
SCO premium (discount) to WTI (weighted-average $/bbl)	$ (3.14)	$ (0.37)	$ (2.93)	$ (10.84)	$ 2.63	$ 4.79	$ 1.00	$ 2.52
Operating expenses[5] ($/bbl)	$ 47.73	$ 59.64	$ 46.91	$ 37.60	$ 46.15	$ 43.23	$ 41.20	$ 38.76
Capital expenditures ($ millions)	$ 222	$ 321	$ 217	$ 292	$ 413	$ 369	$ 268	$ 299
Purchased natural gas price ($/GJ)	$ 3.94	$ 4.45	$ 5.43	$ 3.28	$ 2.59	$ 3.41	$ 2.95	$ 3.02
Foreign exchange rates ($US/$Cdn)								
Average	$ 0.92	$ 0.92	$ 0.91	$ 0.95	$ 0.96	$ 0.98	$ 0.99	$ 1.01
Quarter-end	$ 0.89	$ 0.94	$ 0.90	$ 0.94	$ 0.97	$ 0.95	$ 0.98	$ 1.01

[1] Sales after crude oil purchases and transportation expense.
[2] Cash flow from operations and cash flow from operations per Share are additional GAAP financial measures and are defined in the "Additional GAAP Financial Measures" section of this MD&A.
[3] Daily average sales volumes net of crude oil purchases.
[4] Pricing obtained from Bloomberg.
[5] Derived from operating expenses, as reported on the Consolidated Statements of Income and Comprehensive Income, divided by sales volumes during the period.
[6] Net income and operating expenses in 2012 have been adjusted to reflect amendments to International Accounting Standard ("IAS") 19, Employee Benefits.

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, monthly average WTI prices have ranged from U.S. $87 per barrel to U.S. $107 per barrel, and the monthly average differentials have ranged from a $15 per barrel discount to a $10 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 and unplanned maintenance activities have impacted quarterly production volumes, revenues, operating expenses and per barrel results.
- Changes in bitumen values have impacted Crown royalties.
- Major capital projects to replace or relocate Syncrude mine trains and to support tailings management plans have increased capital expenditures and have reduced Crown royalties over the past eight quarters. These projects are expected to be substantially complete by the end of 2014, reducing future capital expenditures and increasing future Crown royalties and net finance expenses.
- Changes in natural gas prices have impacted operating expenses.

- Current taxes have impacted cash flow from operations. Prior to 2013, tax pools sheltered the Corporation's income from significant current taxes.

Capital Expenditures

	Three Months Ended September 30		Nine Months Ended September 30	
($ millions)	**2014**	2013	**2014**	2013
Major Projects				
Mildred Lake Mine Train Replacement	**$ 68**	$ 124	**$ 256**	$ 352
Centrifuge Tailings Management	**69**	62	**225**	146
Aurora North Mine Train Relocations	**—**	54	**—**	142
Aurora North Tailings Management	**—**	22	**—**	67
Capital expenditures on major projects	**$ 137**	$ 262	**$ 481**	$ 707
Regular maintenance				
Capitalized turnaround costs	**$ 2**	$ 33	**$ 71**	$ 54
Other	**54**	89	**127**	209
Capital expenditures on regular maintenance	**$ 56**	$ 122	**$ 198**	$ 263
Capitalized interest	**$ 29**	$ 29	**$ 81**	$ 80
Total capital expenditures	**$ 222**	$ 413	**$ 760**	$ 1,050

Capital expenditures decreased $191 million in the third quarter of 2014 and $290 million in the first nine months of 2014 from the comparative 2013 periods, reflecting the completion of several tailings and lease development projects in 2013, including two major projects: Aurora North Mine Train Relocations and Aurora North Tailings Management.

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

Contractual Obligations and Commitments

Canadian Oil Sands’ contractual obligations and commitments are summarized in the 2013 annual MD&A and include future cash payments that the Corporation is required to make under existing contractual arrangements entered into directly or as a 36.74 per cent owner in Syncrude. In 2014, Canadian Oil Sands assumed $75 million in new funding commitments relating to capital projects while the Corporation’s share of payments prescribed by regulations on Syncrude Canada’s registered pension plans decreased by approximately $200 million as a result of an actuarial valuation completed in April, 2014.

Dividends

On October 30, 2014, the Corporation declared a quarterly dividend of $0.35 per Share for a total dividend of approximately $170 million. The dividend will be paid on November 28, 2014 to shareholders of record on November 21, 2014. For the nine months ended September 30, 2014, the Corporation has paid dividends to shareholders totaling $509 million, or $1.05 per Share.

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 and recognize our intention to fund the current major projects primarily with cash flow from operations, while maintaining a strong balance sheet to reduce exposure to potential oil price declines, cost increases or major operational upsets.

Other

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

Liquidity and Capital Resources

As at *($ millions, except % amounts)*	**September 30 2014**	December 31 2013
Long-term debt[1]	**$ 1,890**	$ 1,602
Cash and cash equivalents[1]	**(150)**	(806)
Net debt[2,3]	**$ 1,740**	$ 796
Shareholders' equity[1]	**$ 4,667**	$ 4,732
Total net capitalization[2,4]	**$ 6,407**	$ 5,528
Total capitalization[2,5]	**$ 6,557**	$ 6,334
Net debt-to-total net capitalization[2,6] (%)	**27**	14
Long-term debt-to-total capitalization[2,7] (%)	**29**	25

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

In the first nine months of 2014, net debt rose $944 million to $1,740 million at September 30, 2014, as payments for capital expenditures, dividends, and other liabilities were in excess of cash flow from operations. In addition, a weakening Canadian dollar from December 31, 2013 to September 30, 2014 increased the Canadian dollar equivalent value of long-term debt. As a result, net debt-to-total net capitalization increased to 27 per cent at September 30, 2014 from 14 per cent at December 31, 2013.

Based on the assumptions in our 2014 Outlook, we expect net debt to remain near the upper end of our targeted range of $1 billion to $2 billion at year end. While the significant oil price declines in October 2014 have been reflected in our Outlook, Canadian Oil Sands will be monitoring the impact of lower oil prices on its target net debt levels. With spending on major capital projects coming to an end, COS is positioned to fully fund its business in this current environment of lower crude oil prices. We will continue to assess dividend levels in the context of crude oil prices, Syncrude operations and our objective of targeting net debt in the range of $1 billion to $2 billion, while aiming to absorb short-term market volatility over several quarters.

Shareholders' equity decreased to $4,667 million at September 30, 2014 from $4,732 million at December 31, 2013, as dividends exceeded comprehensive income in the first nine months of the year.

In July 2014, Canadian Oil Sands extended the terms of its credit facilities by approximately one year. The $1,500 million credit facility was extended to June 30, 2018 and the $40 million credit facility to June 30, 2016. As at September 30, 2014, $200 million was drawn against these facilities (December 31, 2013 - $nil).

Canadian Oil Sands Senior Notes indentures and credit facility agreements contain certain covenants that restrict Canadian Oil Sands' ability to sell all or substantially all of its assets or change the nature of its business, and limit long-term debt-to-total capitalization to 55 per cent. Canadian Oil Sands is in compliance with its debt covenants, and with a long-term debt-to-total capitalization of 29 per cent at September 30, 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

The Corporation’s shares trade on the Toronto Stock Exchange under the symbol COS. On September 30, 2014, the Corporation had a market capitalization of approximately $10 billion with 484.6 million shares outstanding and a closing price of $20.66 per Share. The following table summarizes the trading activity for the third quarter of 2014.

	Third Quarter 2014	July 2014	August 2014	September 2014
Share price				
High	$ 24.37	$ 24.37	$ 23.71	$ 23.32
Low	$ 20.15	$ 22.84	$ 22.72	$ 20.15
Close	$ 20.66	$ 23.29	$ 23.42	$ 20.66
Volume of Shares traded (millions)	81.7	21.2	28.2	32.3
Weighted average Shares outstanding (millions)	484.6	484.6	484.6	484.6

2014 Outlook

(millions of Canadian dollars, except volume and per barrel amounts)	**As of October 30 2014**	**As of July 31 2014**
Operating assumptions		
Syncrude production (mmbbls)	**97**	100
Canadian Oil Sands sales (mmbbls)	**35.6**	36.7
Sales, net of crude oil purchases and transportation	**$ 3,634**	$ 3,649
Realized SCO selling price ($/bbl)	**$ 101.90**	$ 99.32
Operating expenses	**$ 1,668**	$ 1,680
Operating expenses per barrel	**$ 46.80**	$ 45.73
Development expenses	**$ 148**	$ 166
Crown royalties	**$ 260**	$ 157
Current taxes	**$ 180**	$ 200
Cash flow from operations[1]	**$ 1,272**	$ 1,335
Capital expenditure assumptions		
Major projects	**$ 575**	$ 575
Regular maintenance	**$ 260**	$ 292
Capitalized interest	**$ 103**	$ 88
Total capital expenditures	**$ 938**	$ 955
Business environment assumptions		
West Texas Intermediate (U.S.$/bbl)	**$ 95.00**	$ 95.00
Discount to average Cdn$ WTI (Cdn$/bbl)	**$ (2.50)**	$ (4.00)
Foreign exchange rate (U.S.$/Cdn$)	**$ 0.91**	$ 0.92
AECO natural gas (Cdn$/GJ)	**$ 4.50**	$ 4.50

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

We have reduced the top end of the forecast annual Syncrude production range by two million barrels for an updated range of 95 to 100 million barrels with a single point estimate of 97 million barrels. This reflects actual results to date and assumes an efficient start-up of the Mildred Lake mine trains in the fourth quarter.

Offsetting the impact of the lower production estimate is an increase in the forecast annual realized SCO selling price. This reflects the strong realized SCO selling price in the third quarter, partially offset by the recent declines in the price of oil.

We have increased our estimate of 2014 Crown royalties by $103 million as heavy oil differentials have narrowed in the second half of 2014, resulting in higher estimated deemed bitumen values used to calculate Crown royalties.

Based on these assumptions, estimated 2014 cash flow from operations is $1.3 billion, or $2.62 per Share. While the significant oil price declines in October 2014 have been reflected in our Outlook, Canadian Oil Sands will be monitoring the impact of lower oil prices on its target net debt levels. With spending on major capital projects coming to an end, COS is positioned to fully fund its business in this current environment of lower crude oil prices. We will continue to assess dividend levels in the context of crude oil prices, Syncrude operations and our objective of targeting net debt in the range of $1 billion to $2 billion, while aiming to absorb short-term market volatility over several quarters.

Canadian Oil Sands expects to release its 2015 budget in early December. The specific date and conference call details will be provided in a future press release.

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 (October 30, 2014)

		Cash Flow from Operations Increase	
Variable	**Annual Sensitivity**	**$ millions**[1,2]	**$ / Share**[1,2]
Syncrude operating expense decrease	Cdn$1.00/bbl	$ 21	$ 0.04
Syncrude operating expense decrease	Cdn$50 million	$ 11	$ 0.02
WTI crude oil price increase	U.S.$1.00/bbl	$ 24	$ 0.05
Syncrude production increase	2 million bbls	$ 45	$ 0.09
Canadian dollar weakening	$0.01 US$/Cdn$	$ 25	$ 0.05
AECO natural gas price decrease	Cdn$0.50/GJ	$ 14	$ 0.03

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

[2] These sensitivities assume Canadian Oil Sands pays Crown royalties based on net deemed bitumen revenues in 2014.

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

Major Projects

Syncrude has substantially completed construction of the $3.9 billion Mildred Lake Mine Train Replacement project, which began commissioning in October. The total cost is expected to meet our reduced $3.9 billion cost estimate that was issued during the first quarter of 2014.

The Centrifuge Tailings Management project continues to remain on budget and we have narrowed the range of the cost estimate. The project remains on schedule for completion in the first half of 2015.

The following tables provide cost and schedule estimates for Syncrude's major projects. Regular maintenance capital expenditures for years after 2014 will be provided on an annual basis concurrent with annual budget disclosures.

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

			Total Cost Estimate *($ billions)*	**Total Cost Estimate Accuracy** *(%)*	**Estimated % Complete at September 30, 2014**	**Target In-Service Date**
Mildred Lake Mine Train Replacement	Syncrude	$	3.9	+2% / -2%	99%	Q4 2014
	COS share		1.4			
Centrifuge Tailings Management	Syncrude	$	1.9	+10% / -10%	90%	H1 2015
	COS share		0.7			

Major Projects – Annual Spending Profile[1]

($ billions)		**Spent to December 31, 2013**		**2014**		**2015**	**Total**
Syncrude	$	3.6	$	1.8	$	0.4 $	5.8
Canadian Oil Sands share	$	1.3	$	0.7	$	0.1 $	2.1

[1] *Major projects costs include capital expenditures, excluding capitalized interest, and certain development expenses.*

[2] *The estimated percentage complete is based on hours spent as a percentage of total forecasted hours to project completion.*

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