

TERMS OF REFERENCE OF THE AUDIT COMMITTEE

I. PURPOSE

- A. The primary function of the Audit Committee (the "Committee") is to assist the Board of Directors (the "Board of Directors" or the "Board") of Canadian Oil Sands Limited ("COSL") in fulfilling its oversight responsibilities by reviewing:
 - i) the financial information that will be provided to the shareholders of COSL and the public;
 - ii) the systems of internal controls that management and the Board have established, including monitoring the integrity of the controls regarding financial reporting and accounting compliance; and
 - iii) all audit processes.
- B. Primary responsibility for the financial reporting, information systems, risk management and internal controls of COSL is vested in management and is overseen by the Board.
- C. The Committee reviews and receives the reports of the internal auditor, if any exists, as part of the internal control oversight of COSL.
- D. The Committee shall monitor the independence and performance of the external auditors and of the internal auditors of COSL.

II. CONSTITUTION, COMPOSITION AND DEFINITIONS

- A. The Committee shall be composed of not fewer than three directors, none of whom shall be officers or employees of COSL. The Committee shall only be comprised of "independent" directors. An "independent" director is a director who is free from any direct or indirect relationship with COSL that, in the Board's view, would or could reasonably interfere with the exercise of his or her independent judgment. A member must be "independent" within the meaning ascribed thereto in National Instrument 52-110 *Audit Committees*, as amended from time to time. All members of the Committee shall be financially literate, as determined by the Board of Directors. Committee members will include only duly elected directors.
- B. The Committee shall ensure that management advises the external auditors of the names of the Committee members and provides notice of and invites, where appropriate, the external auditors to attend meetings of the

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Committee. The Committee shall ensure that the external auditors are heard at those meetings on matters relating to the auditor's duties.

- C. The Committee shall meet with the external auditors at least quarterly, and otherwise as it deems appropriate, to consider any matter that the Committee or the external auditors determine should be brought to the attention of the Board or shareholders.
- D. The Committee shall meet at least four times each year. The Chair of the Committee may call additional meetings as required. In addition, a meeting may be called by the Chairman of the Board, the President & Chief Executive Officer, any member of the Committee or by the external auditors.
- E. The Committee shall have the right to determine who shall and who shall not be present at any time during a Committee meeting. The President & Chief Executive Officer and the Chief Financial Officer of COSL are expected to be available to attend the Committee's meetings or portions thereof.
- F. The Board shall appoint members to the Committee. Where a vacancy occurs at any time in the membership of the Committee, the Board may fill it. A majority of the Board may remove any member of the Committee at any time. If a member of the Committee ceases to be a Board member, then such individual shall automatically cease to be a member of the Committee.
- G. The Committee shall be given access to senior management of COSL and all documents as required to fulfill its responsibilities and shall be provided with the resources necessary to carry out its responsibilities.
- H. The Committee shall have the right to:
 - i) engage independent counsel and other advisors as it determines necessary to carry out its duties;
 - ii) to establish and pay the compensation for any advisors employed by the Committee; and
 - iii) to communicate directly with the external auditors and internal auditors.

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- I. The Committee provides open venues of communication among management, employees, external auditors and the Board.
- J. The Chairman of the Board shall be a non-voting member of the Committee unless he is a member of the Committee in which case he shall have the same voting rights as any other member of the Committee.
- K. The Secretary to the Committee shall be either the Corporate Secretary or his/her delegate.
- L. Committee meetings may be held in person, by video conference, by means of telephone or other communication facility that permits all persons participating to hear each other.
- M. Notice of the time and place of each meeting may be given orally, or in writing (including by electronic means) or by facsimile to each member of the Committee at least 48 hours prior to the time fixed for such meeting. Notice shall also be given to the external auditors. Any member and the external auditors may, in any manner, waive notice of the meeting. Attendance of a member or the external auditors at a meeting shall constitute waiver of notice of the meeting except where a member or the external auditors attend the meeting for the express purpose of objecting to the transaction of any business on the grounds that the meeting was not lawfully called.
- N. A majority of members, present in person, by videoconference, telephone or other communication facility shall constitute a quorum.
- O. All members of the Committee are expected to allow sufficient time to review meeting materials and be prepared for Committee meetings. Committee members are expected to attend most, if not all, Committee meetings.
- P. The Chair of the Committee shall be appointed by the Board. The Chair shall preside as chair at each Committee meeting, lead Committee discussion on meeting agenda items and report to the Board, on behalf of the Committee, with respect to the proceedings of each Committee meeting. In the event that either the Chair or the Secretary is absent from any meeting, the members present shall designate any director present to act as Chair and shall designate any director, officer or employee of the Company to act as Secretary.

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III. DUTIES AND RESPONSIBILITIES

Subject to the powers and duties of the Board, the Committee will perform the following duties:

A. Financial Statements and Other Financial Information

The Committee will review and consider all financial information that will be made publicly available. This includes:

- i) reviewing and recommending approval of the annual financial statements and management's discussion and analysis of COSL and report to the Board before the statements are approved by the Board;
- ii) reviewing and recommending approval of the quarterly unaudited financial statements and management's discussion and analysis of COSL and the release of such financial statements and interim management's discussion and analysis to the public together with the press releases thereon to the Board;
- iii) reviewing and recommending to the Board for release any earnings release or guidance document to the public;
- iv) reviewing and recommending to the Board for approval, the financial content of the annual report and of any material reports required by government or regulatory authorities;
- v) reviewing and recommending for approval by the Board the Annual Information Form of COSL;
- vi) reviewing and recommending to the Board for approval the financial content in any prospectus or offering memorandum;
- vii) reviewing and discussing the appropriateness of accounting policies and financial reporting practices used by COSL;
- viii) reviewing and discussing any significant proposed changes in financial reporting and accounting policies and practices to be adopted by COSL;
- ix) reviewing and discussing any new or pending developments in accounting and reporting standards that may materially affect COSL;

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- x) reviewing and assessing the appropriateness of management's key estimates and judgments that may be material to financial reporting;
- xi) reviewing and discussing with the internal auditors any matters which affect or may reasonably be expected to affect the accuracy or robustness of reporting as such relate to the financial statements or other financial disclosure matters;
- xii) reviewing and discussing with management the use of "pro forma" or non-GAAP financial information and earnings guidance contained in news releases, any other public disclosure or any filings with the securities regulators and considering whether the information is consistent with the information contained in the financial statements of COSL; and
- xiii) reviewing and reassessing annually that adequate procedures are in place to review any other corporate disclosure derived or extracted from financial statements.

B. Financial Risk Management, Internal Control and Disclosure Control Systems

The Committee will review and obtain reasonable assurance that the financial risk management, internal control and disclosure control systems are operating effectively to produce accurate, appropriate and timely management of financial risks and financial information. This includes:

- i) review, at least annually, the financial risk management policies and practices of COSL as such relate to financial matters and accounting, it being recognized that the Board is responsible for the review of the overall risk management affecting COSL;
- ii) obtain reasonable assurance from management or external sources as deemed appropriate that the disclosure control systems are reliable and the systems of disclosure and internal controls are properly designed and effectively implemented through discussions with and reports from management, the internal auditor and the external auditor, as deemed appropriate by the Committee;
- iii) review management steps to implement and maintain appropriate internal control procedures including a review of policies, including without limitation, internal controls over marketing;

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- iv) monitor compliance with statutory and regulatory obligations;
- v) establish procedures for the receipt, retention and treatment of complaints received by COSL regarding accounting, internal accounting controls or auditing matters and establish procedures so that the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters are handled appropriately;
- vi) review the report from the Risk Management Committee regarding any credit or financial risk or violations of applicable marketing policies as part of the Committee's oversight of financial risk management for COSL; and
- vii) review management's monitoring of compliance with COSL's Code of Business Conduct.

For greater certainty, the Committee will review and assess the internal controls and disclosure controls as part of the certification process regarding financial statements and financial disclosure. However, the review and overall assessment of risk management and control processes related to non-financial matters shall remain with the Board.

C. External Audit

The external auditors shall report directly to the Committee. The Committee will oversee, and review the planning and results of external audit activities and the ongoing relationship with the external auditors.

This includes:

- i) review and assess the performance and recommend to the Board, for shareholder approval, the appointment and the remuneration of the external auditors:
 - a) assess the firm's qualifications;
 - b) assess the auditor's performance in the conduct of the annual audit;
 - c) conduct a periodic comprehensive review of the audit firm;

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- d) review the Annual Report of CPAB concerning audit quality in Canada, and discuss any implications for COSL; and
 - e) review any reports issued by CPAB regarding the audit of COSL.
- ii) meet with the external auditors to discuss quarterly and annual financial statements of COSL and the auditors' reports thereon;
- iii) review, recommend approval and report to the Board the annual external audit plan and associated fees that the plan should include;
- iv) review with the Board:
 - a) critical accounting policies and estimates and alternatives to such policies and estimates;
 - b) the assessment of accounting risks used to establish areas of focus for the annual audit;
 - c) the materiality standard to be applied during the annual audit;
 - d) any significant accounting or financial reporting issues;
 - e) periodic interim reviews of the progress of the annual audit;
 - f) reports of any difficulties encountered, or restriction imposed by management, during the annual audit;
 - g) if appropriate, the auditors' evaluation of the system of internal controls, procedures and documentation for COSL;
 - h) the post audit or management letter containing any findings or recommendation of the external auditors, including management's response thereto and the subsequent follow-up to any identified disclosure or internal control weaknesses; and
 - i) any other material matters the external auditors bring to the Committee's attention.

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- v) review and pre-approve the non-audit services to be provided by the external auditors' firm or its affiliates (including estimated fees), and consider the impact on the independence of the external audit; where circumstances warrant, this pre-approval may be delegated to the Chair of the Committee;
- vi) meet periodically, and at least quarterly, with the external auditors without management present;
- vii) meet periodically, and at least quarterly, with management, without the external auditors present;
- viii) review any decision by COSL to hire employees or former employees of COSL's current or former external auditors; and
- ix) discuss and review with the external auditor, all relationships such auditor has with COSL as part of the assessment of the independence of the external auditor.

D. Internal Audit

The Committee will

- i) review the internal audit functions including:
 - (A) the purpose, authority and organizational reporting lines;
 - (B) the annual internal audit plan, budget and staffing thereof; and
 - (C) the results of the quarterly reporting memos and of the semi-annual and annual internal audit reports; and
- ii) review, with the Chief Financial Officer, the Controller and others, as appropriate, the internal system of audit controls and the results of internal audits and consider the findings and the appropriateness of follow-up plans of the internal auditor.

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E. Tax

The Committee will

- i) review and approve any material changes to the corporate structure related to tax planning as proposed by management for COSL;
- ii) review all material tax issues; and
- iii) review quarterly any material changes in COSL or its subsidiaries tax position or any material changes to the taxability of COSL and/or its subsidiaries.

F. Other

The Committee will

- i) review material litigation as such impacts financial reporting;
- ii) review policies and procedures for the review and approval of directors' and officers' expenses and perquisites, including the use of corporate assets, and consider the results of any review of these areas by an internal audit function, if available, or by the external auditors or a third party consultant, as the Committee deems applicable;
- iii) review and approve a summary of the Committee's composition and responsibilities as well as summary of any audit, audit-related and other services by the external auditors for inclusion in the public disclosure documentation of COSL, including without limitation, any such disclosure contained in a management proxy circular;
- iv) review any related party transactions between COSL and the directors and officers of COSL;
- v) review any legal and regulatory matters that may have a material impact on the interim or annual financial statements that are brought to the attention of any member of the Committee or the Board;
- vi) conduct or authorize investigation into any matters within the Committee's scope of responsibilities. The Committee shall be empowered to retain independent accountants or others to assist it in the conduct of any investigation. Without limiting the foregoing,

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the Committee shall have the authority to establish procedures for the receipt, retention and treatment of:

- (A) Complaints COSL may receive regarding accounting, internal accounting controls, or auditing matters; and
 - (B) Confidential, anonymous submissions from COSL employees expressing concern regarding questionable accounting or auditing matters;
- vii) approve the appointment, re-assignment or removal of the Chief Financial Officer of COSL, subject to the recommendation of the Corporate Governance and Compensation Committee and the final approval of the Board;
 - viii) approve the appointment, re-assignment or removal of the internal auditor, if any exists, of COSL, subject to the recommendation of the Corporate Governance and Compensation Committee and the final approval of the Board; and
 - ix) encourage open communication and co-operation between the external and internal auditors including, where appropriate, the reliance by the external auditor on some of the work performed by the internal auditor.

IV. ACCOUNTABILITY

The Committee shall report its discussions to the Board by either distributing the minutes of its meetings or a written summary of such discussions or by oral report at the next Board meeting. Any sensitive materials shall be kept by the Corporate Secretary and/or the Chairman of the Committee.

The Committee shall conduct a review of the Committee's effectiveness at least annually and follow up on any suggested improvements that are identified out of such review or otherwise brought to the attention of the Committee.

V. REVIEW

The Committee shall review these terms of reference at least annually or, where circumstances warrant, at such shorter interval as the Committee deems appropriate or necessary, to determine if further additions, deletions or other amendments are required.