



Canadian Oil Sands

CANADIAN OIL SANDS TRUST

ANNUAL INFORMATION FORM

For the Year Ended December 31, 2009

March 22, 2010

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GLOSSARY

"**AENV**" means Alberta Environment;

"**AEPEA**" means *Alberta Environmental Protection and Enhancement Act* (Alberta);

"**AEUB**" means Alberta Energy Utilities Board;

"**Amended Royalty Agreement**" means the Syncrude Royalty Amending Agreement dated November 18, 2008 between Her Majesty the Queen in Right of Alberta and the Syncrude Participants;

"**AOSII**" means Athabasca Oil Sands Investments Inc.;

"**AOST**" means Athabasca Oil Sands Trust;

"**Arrangement**" means the proposed arrangement, under the provisions of Section 193 of the *Business Corporations Act* (Alberta), on the terms and conditions set forth in the Plan of Arrangement and includes any supplement, modification or amendment thereto made in accordance with the Arrangement Agreement;

"**Arrangement Agreement**" means the agreement made as of March 5, 2010, as amended on March 15, 2010, among the Trust, the Corporation and 1506633 Alberta Ltd. pursuant to which such parties have proposed to implement the Arrangement;

"**bitumen**" in its raw state, is a black oil. It is a naturally occurring viscous tar-like mixture, mainly containing hydrocarbons heavier than pentane, which is not recoverable at a commercial rate in its naturally occurring viscous state through a well without using enhanced recovery methods. When extracted, bitumen can be upgraded into crude oil and other petroleum products;

"**bucketwheel reclaimers**" means a very large machine that scoops up mined oil sand and places it on conveyors;

"**CRA**" means Canada Revenue Agency;

"**CO**" means carbon monoxide;

"**CO₂**" means carbon dioxide;

"**Canadian Oil Sands**", "**us**" or "**we**" mean collectively the Trust, the Corporation and all subsidiaries of the Trust;

"**capacity**" means maximum output that can be achieved from a facility in ideal operating conditions in accordance with engineering design specifications. This capacity is referred to as "barrels per stream day". When required scheduled downtime and other allowances under normal operations are considered, the capacity is referred to as "barrels per calendar day". Unless otherwise stated, all references to Syncrude's productive capacity refer to barrels per calendar day;

"**coker**" means vessels in which bitumen is cracked into light fractions and coke is withdrawn to start the conversion process of bitumen to upgraded crude oil;

"**Corporation**" means Canadian Oil Sands Limited, the continuing corporation resulting from the amalgamation of AOSII, COSII and COSL on January 1, 2003;

"COSII" means Canadian Oil Sands Investments Inc.;

"COSL" means Canadian Oil Sands Limited, prior to the amalgamation with AOSII and COSII;

"COST" means the former Canadian Oil Sands Trust, which was merged with the Trust in 2001;

"conventional crude oil" means crude oil produced through wells by standard industry recovery methods for the production of crude oil;

"cracking" means a process which breaks large, complex hydrocarbon molecules into smaller, simpler compounds by means of heat (as in the case of a coker) or by means of catalytic hydrogen addition (as in the case of the LC Finer);

"Crown Royalty" or "Crown Royalties" means the payments to be made to the Province of Alberta pursuant to the Alberta Crown Agreement or under the generic crown royalty scheme;

"crude oil" means unrefined liquid hydrocarbons, excluding natural gas liquids;

"double roll crusher" means a large unit which crushes the oil sand and deposits the crushed oil sand on to a conveyor;

"dragline" means a large machine which digs oil sand from the mine pit and places it into elongated piles (windrows);

"ERCB" means the Energy Resources Conservation Board of Alberta, the successor to the AEUB;

"EnCana" means EnCana Corporation, formerly PanCanadian Energy Corporation;

"extraction" means the process of separating the bitumen from the oil sand;

"fine tailings" are produced as a result of extraction of bitumen from oil sand and consist of about 85 percent water and 15 percent fine clay particles by volume;

"Imperial Oil" means Imperial Oil Resources, a Syncrude Participant;

"joint venture" means an economic activity resulting from a contractual arrangement whereby two or more participants jointly control the economic activity;

"LP" means Canadian Oil Sands Limited Partnership, a limited partnership;

"MD&A" means our management's discussion and analysis for the year ended December 31, 2009;

"MSA" means the management services agreement and secondment agreement dated November 1, 2006 between Syncrude Canada Ltd. and Imperial Oil and amended and restated as of May 1, 2007;

"Manager" means, prior to January 1, 2003, AOSII and COSII and, on and after January 1, 2003, the Corporation;

"naphtha" means a light fraction of crude oil used to make gasoline;

"oil sand(s)" is comprised of sand, bitumen, mineral rich clays and water;

"Ownership and Management Agreement" means the Ownership and Management Agreement dated February 4, 1975 among the Syncrude Participants and SCL, as amended;

"overburden" means material overlying oil sand that must be removed before mining; consists of muskeg, glacial deposits and sand;

"Plan of Arrangement" means the plan of arrangement in respect of the Arrangement, as amended or supplemented from time to time in accordance with the terms thereof;

"residuum" means the fraction of bitumen that remains after the light ends have been distilled;

"SCL" means Syncrude Canada Ltd., the operator of the Syncrude Project which is owned by the Syncrude Participants;

"SCO" means the synthetic crude oil produced by Syncrude, which may be SSB or SSP or some other product type from time to time;

"SER" means Syncrude Emissions Reduction project, a project whose purpose focuses on improving the environment by reducing emissions from the business;

"SSB" means Syncrude™ Sweet Blend;

"SSP" means Syncrude™ Sweet Premium;

"synbit" is a blend of bitumen and synthetic crude oil;

"Syncrude" means, collectively, the Syncrude Joint Venture and the Syncrude Project;

"Syncrude Bitumen Royalty Option Agreement" means the Syncrude Bitumen Royalty Option Agreement dated November 18, 2008 between Her Majesty the Queen in Right of Alberta and the Syncrude Participants;

"Syncrude Joint Venture" means the joint venture formed by the Syncrude Participants for the purpose of exploiting the Athabasca oil sands, which includes the Syncrude Plant and leases acquired or developed in connection therewith;

"Syncrude Participants" or **"Participants"** means ConocoPhillips Oilsands Partnership II (9.03 percent), Imperial Oil Resources (25 percent), Mocal Energy Limited (5 percent), Murphy Oil Company Ltd. (5 percent), Nexen Oil Sands Partnership (7.23 percent) and Suncor Energy Oil & Gas Partnership (12 percent), and, prior to January 2, 2007, LP (5 percent), the Corporation (31.74 percent), and effective January 2, 2007, the Corporation (36.74 percent), as the corporations or partnerships that own the undivided interests in the Syncrude Project and their respective successors and assigns in interest from time to time;

"Syncrude Plant" means all of the plant and facilities owned by the Syncrude Participants and operated by SCL located at Mildred Lake, approximately 40 kilometres north of Fort McMurray, Alberta, where upgrading of bitumen occurs along with the plants and facilities owned by the Syncrude Participants and operated by SCL located at the Aurora site approximately 35 kilometres north of Mildred Lake;

"Syncrude Project" means (a) the scheme for recovery of oil sands, crude bitumen or products derived therefrom originally approved in Approval No. 1920 of the ERCB that was the successor to the AEUB and currently approved in Approval Nos. 8573 and 10781, as issued by the AEUB, as such scheme may be amended or superseded from time to time, (b) all property now owned or hereafter acquired or developed by

the owners participating from time to time in such scheme or by SCL on their behalf in connection with such scheme, (c) the oil sands leases, and (d) any other scheme or schemes implemented for the purpose of recovering oil sands, crude bitumen or products derived from those oil sands leases related to such scheme or schemes and all property acquired or developed in connection with such scheme or schemes;

"synthetic crude oil" means the crude oil produced by the Alberta oil sands industry, including crude oil produced by Syncrude;

"Trust" means Canadian Oil Sands Trust, which prior to the merger with COST, was known as Athabasca Oil Sands Trust;

"trust royalty" means the net royalty paid to the Trust by the Manager on the production of synthetic crude oil and associated products, attributable to the Manager's working interest in Syncrude;

"Units" means the trust units of the Trust;

"Unitholders" means the holders of the units of the Trust; and

"upgrading" means the conversion of heavy bitumen into a lighter crude oil by increasing the hydrogen to carbon ratio, either through the removal of carbon (coking) or the addition of hydrogen (hydroprocessing).

UNITS

API	A measure of specific gravity
Bbl	Barrel
bbls/d or bpd	Barrels per day
gj or GJ	Gigajoule
MW	Megawatt
Tcf	Trillion cubic feet equivalent of natural gas

Notes:

Unless otherwise specified:

- (1) all information is as at December 31, 2009;
- (2) all dollar amounts are expressed in Canadian dollars, all references to "dollars" or "\$" are to Canadian dollars and all references to "US\$" are to United States dollars; and
- (3) Unit information has been adjusted to reflect the 5:1 Unit split that occurred on May 3, 2006.

NON-GAAP FINANCIAL MEASURES

In our MD&A and this Annual Information Form ("AIF"), we refer to financial measures that do not have any standardized meaning as prescribed by Canadian generally accepted accounting principles ("GAAP"). These non-GAAP financial measures include cash from operating activities on a per Unit basis, net debt, total capitalization, net debt to total capitalization, return on average Unitholder equity, return on average productive capital employed, and certain per barrel measures. Cash from operating activities per Unit is calculated as cash from operating activities reported on the Trust's Consolidated Statement of Cash Flows divided by the weighted-average number of Units outstanding in the period. This measure is an indicator of the Trust's capacity to fund capital expenditures, distributions, and other

investing activities without incremental financing. In addition, the Trust refers to various per barrel figures, such as net realized selling prices, operating costs and Crown royalties, which also are considered non-GAAP measures, but provide meaningful information on the performance of the Trust. We derive per barrel figures by dividing the relevant revenue or cost figure by our sales volumes, which are net of purchased crude oil volumes in a period. Non-GAAP financial measures provide additional information that we believe is meaningful regarding the Trust's operational performance, its liquidity and its capacity to fund distributions, capital expenditures and other investing activities. Users are cautioned that non-GAAP financial measures presented by the Trust may not be comparable with measures provided by other entities.

FORWARD-LOOKING INFORMATION ADVISORY

In the interest of providing Unitholders and potential investors of Canadian Oil Sands (or "we" or "us") with information regarding Canadian Oil Sands, including the Corporation's assessment of Canadian Oil Sands' future plans and operations, certain statements throughout this AIF contain "forward-looking statements" under applicable securities laws. Forward-looking statements are typically identified by words such as "anticipate", "expect", "believe", "plan", "intend" or similar words suggesting future outcomes. Forward-looking statements contained in this AIF include, but are not limited to statements with respect to: the expected amount of natural gas resources in the Arctic assets and the ability for these assets to act as a hedge against increases in natural gas costs at Syncrude; the estimated value and amount of reserves recoverable and the time frame to recover such reserves; the estimated resources both at Syncrude and in the Arctic licenses; the expectation that the SER project will significantly reduce total sulphur dioxide and other emissions; the anticipated cost and completion date for the SER project; the expectation that the MSA between SCL and Imperial Oil will lead to increased reliability and other benefits and that the costs associated with the MSA will not outweigh the benefits; the expected level for sustaining capital in 2010 and over the long term; the expected impact on the Trust from the proposed conversion to a corporate structure and the date of such conversion; Unitholder and court approval of the proposed Plan of Arrangement pursuant to which the conversion of the Trust to a corporate structure will be affected; the adoption of a new shareholder rights plan by the new corporate entity; the potential amount payable in respect of any future income tax liability; the expected realized selling price, which includes the anticipated differential to WTI crude oil to be received in 2010 for Canadian Oil Sands' product; the level and timing of growth in production volumes expected from the Stage 3 debottleneck, mine train moves, Aurora South development and other expansion projects (average growth development), and whether these projects will be approved by the Syncrude Participants; the benefits of the Kearl Lake cooperation agreements; the cost savings and efficiencies from wet crushing technologies; the expectation regarding inflation and labour costs in the Wood Buffalo Region; the expected price for crude oil and natural gas in 2010; the expected production, revenues and operating costs for 2010 and beyond; the anticipated impact that certain factors such as natural gas and oil prices, foreign exchange rates and operating costs have on the Trust's cash from operating activities and net income; the energy consumption levels for 2010 and beyond; the anticipated timing to reach full production rates at Syncrude; the expected impact that increased supplies of synthetic crude oil will have on the net realized selling price that Canadian Oil Sands receives for its product; the expected realized selling price for Canadian Oil Sands' product as expressed as a differential to WTI; the level of natural gas consumption; the expected impact of any announced or future environmental or climate change legislation; the impact of any environmental boycott on oil sands; intentions and expectations regarding future distribution levels; the expectation that there will not be any material funding increases relative to Syncrude's future reclamation costs or pension funding for the next few years; the belief that the Trust will not be restricted by its net debt to total capitalization financial covenant; and the anticipated maintenance work at Syncrude and the impact such maintenance will have on Canadian Oil Sands' financial results. 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 Canadian Oil Sands believes that the assumptions and expectations represented by such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. Some of the risks and other factors which could cause results to differ materially from those expressed in the forward-looking statements contained in this AIF include, but are not limited to: the impacts of regulatory changes especially those which relate to royalties, taxation and the environment; the impact of technology on operations and processes and how new complex technology may not perform as expected; labour turnover and shortages and the productivity achieved from labour in the Fort McMurray area; uncertainty of estimates with respect to bitumen and SCO reserves and resources; the supply and demand metrics for oil and natural gas; the impact that pipeline capacity and refinery demand have on prices for our products; the variances of stock market activities generally; the obtaining of required owner approvals from the Syncrude Participants for expansions, operational issues and contractual issues; normal risks associated with litigation, regulatory changes, sanctions and boycotts; volatility of crude oil and natural gas prices; market competition; Canadian Oil Sands' 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 loss of mutual fund trust status; the inability to meet or continue to meet the listing requirements of the TSX; the inability to obtain required consents, permits or approvals, including but not limited to Unitholder and court approval of the Plan of Arrangement; the failure to realize the anticipated benefits of the Plan of Arrangement; changes in environmental and other regulations; general economic, business and market conditions, and such other risks and uncertainties described from time to time in our MD&A, in the Risk Factors section of this AIF, and in the reports and filings made with securities regulatory authorities by Canadian Oil Sands as well as those assumptions outlined in Canadian Oil Sands' guidance document being correct. You are cautioned that the foregoing list of important factors is not exhaustive. Furthermore, the forward-looking statements contained in this AIF are made as of the date of this AIF, and unless required by law, Canadian Oil Sands 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 AIF are expressly qualified by this cautionary statement.

THE TRUST AND ITS STRUCTURE

Name, Address and Formation

The Trust is an open-ended investment trust formed in October 1995 under the laws of the Province of Alberta pursuant to an amended and restated trust indenture created upon the merger of the Athabasca Oil Sands Trust ("AOST") and the former Canadian Oil Sands Trust ("COST"). On July 5, 2001, AOST acquired all the assets of COST and assumed all the liabilities of COST in exchange for AOST units equal to the number of COST units issued and outstanding as of such date. AOST then changed its name to "Canadian Oil Sands Trust". The trust indenture was further amended and restated on June 1, 2005 to reflect the adoption of amendments passed at the 2003 and 2005 Unitholders' meetings and effective December 20, 2005 to allow for a change in how distributions were paid. Commencing in the fourth quarter of 2005 distributions are recorded in respect of the quarter declared and paid to Unitholders on the last business day of February, May, August and November. In March 2010, the Board of Directors resolved to make certain clarifying amendments to the Fifth Amended and Restated Trust Indenture made as of April 26, 2006 to assist with the interpretation of certain accounting rules under IFRS. Accordingly, at the annual and special meeting of Unitholders to be held on April 29, 2010, Unitholders will be asked to approve such amendments retroactive to January 1, 2010. A full discussion

of such amendments is contained in the Management Proxy Circular dated as of March 15, 2010. The current trustee of the Trust is Computershare Trust Company of Canada (the "Trustee").

The registered and head office of the Trust is located at 2500 First Canadian Centre, 350 – 7th Avenue S.W., Calgary, Alberta T2P 3N9.

Intercorporate Relationships

The following table provides the name, the percentage of voting securities beneficially owned, or controlled or directed, directly or indirectly and the jurisdiction of incorporation, continuance or formation of the Trust's material subsidiaries as at March 22, 2010.

	Percentage of Voting Securities	Jurisdiction of Incorporation/ Formation
Canadian Oil Sands Limited ⁽¹⁾	100%	Alberta
Canadian Oil Sands Marketing Inc. ⁽²⁾	100%	Alberta

Notes:

- (1) Total assets and total revenues of this entity constituted more than 10 percent of the consolidated assets and consolidated revenues of the Trust at December 31, 2009.
- (2) Markets the SCO production for the Trust and its subsidiaries outside of Canada. In 2008, the total revenues of this entity constituted more than 10 percent of the consolidated revenues of the Trust at December 31, 2008 but in 2009 its revenues were less than 10 percent and in both 2008 and 2009 its total assets were less than 10 percent of the consolidated assets of the Trust at December 31, 2008 and December 31, 2009, respectively.

GENERAL DEVELOPMENT OF THE BUSINESS

Summary

We are the largest energy trust in Canada, based on market capitalization as at March 12, 2010 of approximately \$14 billion, and the only public investment vehicle that provides a non-diversified ownership interest in Syncrude, a large oil sands open-pit integrated mining project. Syncrude is located near Fort McMurray, Alberta, Canada and operates oil sands mines, bitumen extraction plants, an upgrading complex that processes bitumen into a synthetic crude oil and utility plants. Syncrude produces a single high quality, light, sweet synthetic crude oil blend, referred to as "SyncrudeTM Sweet Premium" ("SSP"), which has an average gravity of about 31° API, low sulphur content of less than 0.2 percent and a cetane level of 38. During 2007, Syncrude transitioned its production volumes from its historical SyncrudeTM Sweet Blend ("SSB") quality level to the SSP quality. We use the terms "synthetic crude oil" or "SCO" to refer to Syncrude's production and sales volumes. The Trust's business is its indirect ownership of Syncrude and the marketing and sales of SCO derived from such ownership, as well as other products related to such Syncrude interest.

On November 29, 2006, the Corporation entered into an agreement with Talisman Energy Inc. ("Talisman") to acquire the 1.25 percent indirect working interest in Syncrude that Talisman held through its ownership of units of Canadian Oil Sands Limited Partnership ("LP"). This acquisition, which closed on January 2, 2007, was for approximately \$475 million, half of which Canadian Oil Sands paid in cash and half through the issuance of 8,189,655 Units. Immediately following the acquisition, the Corporation

dissolved the LP, resulting in the full 36.74 percent working interest in Syncrude being held directly by the Corporation. This 36.74 percent working interest in Syncrude is the major asset of the Trust as of the date of this AIF.

Canadian Oil Sands' cash from operating activities and the distributions paid to Unitholders are highly dependent on the net selling price received for our SCO production and the operating costs and other expenses of producing SCO, including Crown royalties. We have been marketing our share of SCO production since August 2006. Establishing our own marketing capability has resulted in more direct control over our marketing processes, a better understanding of our customers' needs, and enhancement of our understanding of evolving market dynamics. These insights have assisted us in making long term strategic decisions about markets and products, both for our interest in Syncrude and as we consider other oil sands investments. Additionally, obtaining space on pipelines and ancillary storage facilities to move our product continues to be a cornerstone of the marketing department's activities.

As part of the internalization of the marketing department in 2006, we created a wholly-owned subsidiary of the Corporation called Canadian Oil Sands Marketing Inc. ("COSMI"). COSMI is the entity which markets Canadian Oil Sands' Syncrude production to customers with title transfer points in the United States as opposed to the Corporation which sells to customers with title transfer points within Canada. COSMI purchases SCO from the Corporation for resale to the customers in the U.S. and enters into U.S. pipeline and other transportation and marketing arrangements. COSMI has no employees or offices of its own and instead contracts management services from the Corporation and is allocated a portion of the overhead costs of the Corporation.

The Corporation is responsible for the management of the Trust. Specific responsibilities are: (i) to devise, manage, finance and execute a long term strategy aimed at optimizing Unitholders' value in the Trust; (ii) to ensure compliance by the Trust with continuous disclosure obligations under all applicable securities legislation; (iii) to provide investor relations services; (iv) to provide, or cause to be provided to Unitholders, all information to which Unitholders are entitled under the amended and restated trust indenture; (v) to call, hold and distribute material including notices of meetings and information circulars in respect of all necessary meetings of Unitholders; (vi) to determine the amounts payable from time to time to Unitholders and to arrange for distributions to Unitholders; and (vii) to determine the timing and terms of future financings, including offerings of Units, if any.

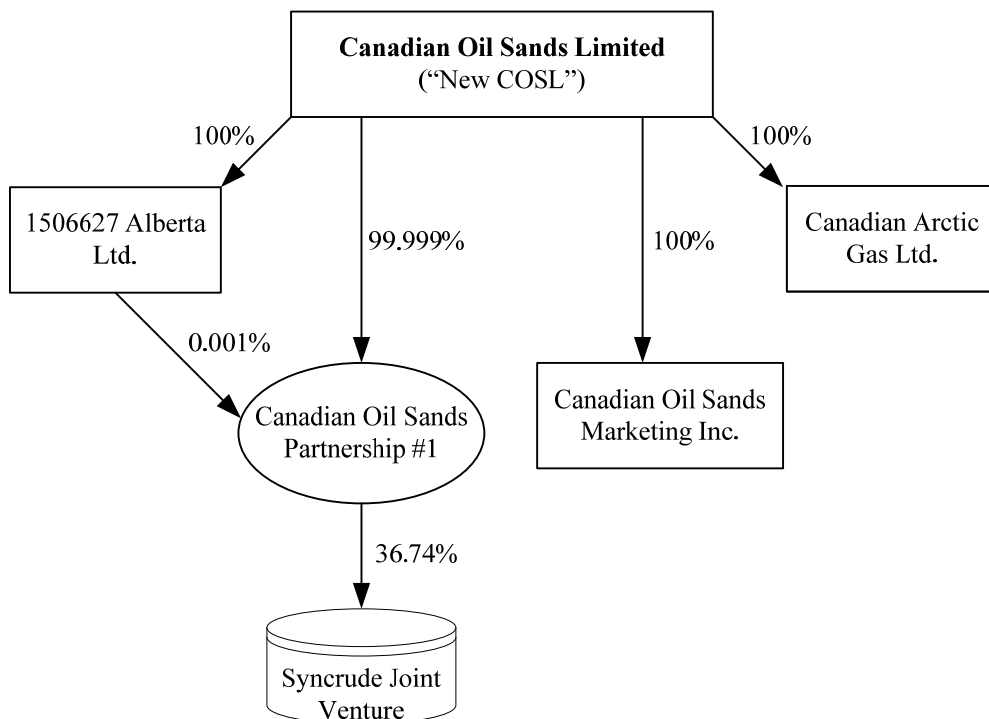
Canadian Oil Sands is responsible for funding its share of Syncrude's operations, maintenance, expansions, Crown royalties and its own administrative and financing costs. Sources of funding include cash from operating activities generated from the sale of our share of SCO production and, as required, debt and equity financing. In the opinion of the Corporation's management, cash from operating activities is a key performance indicator of the Trust's ability to generate cash to fund capital expenditures and reclamation trust contributions, repay debt, and pay Unitholder distributions. The Trust makes distributions to its Unitholders after it receives trust royalties and debt and interest payments, if any, from the Corporation and pays its expenses and other obligations.

In 2006, Canadian Oil Sands acquired Canada Southern Petroleum Ltd. (“CSP”) for cash proceeds of approximately \$223 million. The objective of the acquisition was to acquire natural gas interests in the Arctic. Following the acquisition, all of the issued and outstanding shares of CSP were amalgamated with two wholly-owned subsidiaries of the Corporation to form Canadian Arctic Gas Ltd. (“Canadian Arctic”). By May 2007, CSP’s conventional oil and natural gas reserves in B.C., Alberta, Saskatchewan and the Yukon were sold in various stages to third parties leaving the Arctic natural gas interests as the sole remaining significant asset of Canadian Arctic. Canadian Oil Sands views the acquisition of CSP as a strategic and unique opportunity to secure a large, long-life natural gas resource as a potential offset to the risk of significant future natural gas prices as natural gas is consumed in the Syncrude operation. This acquisition was aimed at providing a long term financial hedge against any significant increases in natural gas prices. Canadian Oil Sands financed the acquisition with bank debt and cash from operating activities. In the fourth quarter of 2009, after considering recent advancements in the exploitation of the significant North American shale gas resources and its likely impact on the development timeline for the Canadian Arctic asset, Canadian Oil Sands recorded an impairment that reduced the book value of these Arctic assets to \$35 million. Additionally, in December 2009, in order to simplify the corporate structure, the Corporation reorganized its holdings in the various companies acquired as part of CSP by amalgamating Canadian Arctic and four numbered subsidiary companies into one entity, known as “Canadian Arctic Gas Ltd”.

On June 22, 2007, new trust taxation rules previously announced by the Canadian federal government on October 31, 2006 were substantively enacted as Bill C-52. As a result of Bill C-52 and other tax rate reductions enacted, a 26.5 percent tax is expected to be applied to distributions from the Trust beginning in 2011, reducing to 25 percent of distributions in 2012. On July 14, 2008, the Department of Finance released draft legislation for income and royalty trust conversions. The draft legislation is designed to permit income and royalty trusts to convert into public corporations without triggering adverse Canadian tax consequences to the income or royalty trusts and its Unitholders (the “SIFT conversion rules”). On November 28, 2008, the Minister of Finance introduced changes in the House of Commons to the SIFT conversion rules and, on December 4, 2008, issued explanatory notes on these changes. This proposed legislation allows a tax-free rollover of holdings in a trust as it converts to a corporate structure. The legislation also accelerates the safe haven guidelines to immediately allow cumulative new equity issues of up to 100 percent of an entity’s October 31, 2006 market capitalization. This legislation was enacted effective July 13, 2009.

In response to the income trust tax changes, Canadian Oil Sands evaluated the alternatives as to the best structure for its Unitholders. The federal government regulations confirmed that income trusts may convert from a trust to a corporate structure on a tax-deferred basis so long as such conversion is completed by 2013. On January 28, 2010, Canadian Oil Sands’ Board approved converting to a corporate structure on or about January 1, 2011. Canadian Oil Sands plans to bring trust conversion matters forward for Unitholder approval at the Annual and Special Meeting to be held April 29, 2010. We believe that a corporate structure is the best suited structure to optimize shareholder value. See pages 26 to 49 of the management proxy circular dated March 15, 2010 relating thereto for more information on the proposed trust conversion matters.

Based on current plans, Units in the Trust would be exchanged for common shares in a newly formed company, 1506633 Alberta Ltd. (“Acquireco”), as part of the Plan of Arrangement. Pursuant to the Plan of Arrangement, the Corporation and Acquireco will amalgamate to form new Canadian Oil Sands Limited (“New COSL”). Following the effective date of the Plan of Arrangement, Unitholders will be the shareholders of New COSL. As part of the move to a corporate structure, Canadian Oil Sands intends to simplify its structure and use legal vehicles typical in the oil and gas industry. Accordingly, either prior to or subsequent to the effective date of the Plan of Arrangement, Canadian Oil Sands’ interest in the Syncrude Joint Venture will be transferred to a partnership that will be wholly-owned by New COSL. The following diagram illustrates the expected organizational structure of New COSL immediately following the completion of the Arrangement. For simplification purposes, this diagram omits wholly-owned holding or operating companies that are not material.



As part of its conversion to a corporate structure, Canadian Oil Sands has reviewed its distribution/dividend strategies. Based on current conditions, we expect to pay dividends once we become a corporation on a basis similar to our current approach to distributions. Accordingly, future dividends that may be paid by Canadian Oil Sands following its conversion to a corporate structure are expected to vary depending on Syncrude’s operational performance, Canadian Oil Sands’ financial performance and operating and capital obligations. New COSL acquisitions, income tax payable by New COSL, crude oil prices and access to capital markets, as well as the solvency tests imposed by the *Business Corporations Act* (Alberta) on corporations for the declaration and payment of dividends and access to capital markets. Further, the taxability of New COSL after conversion will impact cash from operating activities in future periods.

In 2006, Syncrude completed the largest expansion project in its history, known as Stage 3. The aggregate Stage 3 cost was estimated at \$8.6 billion, or \$3.1 billion net to the Trust based on its ownership interest. The expansion was designed to increase annual Syncrude productive capacity to about 129 million barrels and enhance the quality of our product. Stage 3 units produced at or near its design rates at various times subsequent to 2006. However, unplanned maintenance has prevented

Syncrude from achieving this design capacity from year to year. Coker 8-3, the main Stage 3 upgrading unit, experienced unplanned maintenance in the second and fourth quarters of 2007 to remove coke deposits. While Syncrude had not anticipated such extensive maintenance on Coker 8-3 that early in its run length, various performance issues are typical when bringing a new, complex expansion such as Stage 3 into operation. Coker 8-3 underwent its first full planned maintenance including additional modifications during the first half of 2009.

On November 1, 2006, Canadian Oil Sands announced that the Syncrude Participants had approved SCL entering into a comprehensive management services agreement (the “MSA”) and secondment agreements with Imperial Oil. The MSA has an initial term of 10 years with renewal provisions. The MSA was effective November 1, 2006 and was further amended and restated as of May 1, 2007. Each of SCL and Imperial Oil has the option to terminate the MSA on 24 months notice for any reason.

Following a comprehensive onsite assessment of the Syncrude operations in the first quarter of 2007, the Syncrude Participants approved the recommendations of an Opportunity Assessment Team as part of the MSA. Imperial Oil began implementing the recommendations in 2007 and continues to work with Syncrude, including the secondment of Imperial Oil and ExxonMobil personnel to Syncrude, the appointment of a new President and Chief Executive Officer and the implementation of certain ExxonMobil best practices and operating systems aimed at establishing sustained annual production of 129 million barrels, or 47 million barrels net to the Trust. Implementation of the MSA is ongoing. Pursuant to the MSA, Imperial Oil, with the support of ExxonMobil, has been implementing certain of their global practices in several areas including maintenance and reliability, energy management, procurement, safety, health, and environmental performance with the goal of delivering sustainable improvement in Syncrude's operating performance and project execution. While improvements have been slower than originally anticipated, we continue to believe that the MSA will provide improved performance over the long term. The current goal is to achieve design capacity of 129 million barrels in 2011.

Canadian Oil Sands pays its pro-rata share of the annual fixed service fees under the MSA equivalent to about \$17 million (\$47 million gross to SCL), plus its share of the direct costs that Imperial Oil incurs in providing the services. Following the initial ten year term, the annual fixed service fees drop to \$12 million (\$33 million gross to SCL). In years four (2010) through ten (2016), performance fee incentives similar in magnitude to the fixed fees also will apply if certain production and cost targets are achieved. Through higher production levels, savings in energy efficiency, more effective prioritization and execution of capital costs, reduced maintenance and operating costs, and other efficiencies from new business control systems, we believe that the value to be captured should exceed the fees paid. Other than as disclosed herein, the MSA does not change the existing Ownership and Management Agreement between SCL and the Syncrude Participants. SCL remains the operator and employer of Syncrude's personnel. Ownership in the Syncrude Joint Venture remains unchanged, as does the proportionate ownership in SCL. The oversight and strategic direction for Syncrude continues to come from the Syncrude Participants' Management Committee, which is comprised of senior representatives from each Syncrude Participant, and is currently chaired by Canadian Oil Sands.

The Syncrude Joint Venture is owned as various undivided interests by the Syncrude Participants and has produced SCO for over 30 years. The assets of the Syncrude Joint Venture are operated and managed by SCL, which is owned by the Syncrude Participants in the same proportions as their interest in the Syncrude Joint Venture. SCL is a single purpose company with no significant tangible or capital assets with the exception of its workforce and retirement plan assets. The Syncrude Management Committee governs the Syncrude Joint Venture and each Participant nominates a representative to the committee, which

is charged with setting the strategic direction for and making decisions regarding the operation of the Syncrude Joint Venture. Our President and Chief Executive Officer is the Chair of the Syncrude Management Committee. He is also Chair of the Board of Directors of SCL and chairs the CEO Committee of the Board of SCL. Our Chief Financial Officer is the Chair of the Audit and Business Controls subcommittee of the Syncrude Management Committee. Additionally, our Chief Operations Officer chairs the Syncrude Growth subcommittee. None of the representatives of the Syncrude Joint Venture Participants on the Board of SCL, the Management Committee or any committees thereof receive compensation as directors of SCL or members of those committees.

Each Participant receives its share of production *in kind* and is responsible for the subsequent marketing of such share of the production. Syncrude commenced production in 1978. Syncrude's production was 102 million barrels in 2009 and 106 million barrels in 2008. The focus in 2010 and beyond remains to achieve more reliable and efficient operations so as to enable Syncrude to reach annual productive capacity of 129 million barrels gross to Syncrude. We believe that the implementation of the MSA between SCL and Imperial Oil is a significant step towards achieving this goal.

Syncrude's facilities have the design capability to produce approximately 375,000 bbls/d when operating at full capacity under optimal conditions and with no downtime for maintenance or turnarounds. This daily production capacity is referred to as "barrels per stream day". Under normal operating conditions, scheduled downtime is required for maintenance and turnaround activities and unscheduled downtime will occur as a result of mechanical problems, unanticipated repairs and other slowdowns. When allowances for such downtime are included, the daily productive capacity of Syncrude's facilities is approximately 350,000 bbls/d on average and is referred to as "barrels per calendar day". Unless stated otherwise, all references to Syncrude's productive capacity refer to barrels per calendar day.

Production volumes reflect the capacity of the Syncrude facility and the reliability of its operations. Our proved plus probable reserves life, currently estimated at about 39 years based on current productive capacity, provides a secure, long term source of bitumen for the production of SCO. However, the process of mining, extracting and upgrading bitumen is a highly technical and complex manufacturing operation that requires regular maintenance of the various operating units, which can affect production volumes and consequently revenues and operating costs. An oil sands operation such as Syncrude is essentially a manufacturing business, whereby reliability is a key factor as costs are largely fixed. If the facilities can process more barrels for the same costs, per barrel costs are reduced, enhancing project economics. Therefore, production volumes have a significant impact on per barrel operating costs and, if the plant is not operating, repair costs typically also are being incurred. One of the most significant production cost inputs is natural gas; accordingly, operating costs are also sensitive to changes in natural gas prices and natural gas volumes consumed in the production process.

Historically, our realized selling price has correlated closely to the West Texas Intermediate ("WTI") benchmark oil price converted to Canadian dollars at average foreign exchange rates. Crude oil prices can be volatile, reflecting world events and supply and demand fundamentals. In addition, supply and demand impacts the price differential of our SCO product relative to Canadian dollar WTI prices. This price differential can quickly move from a premium to a discount depending on the supply/demand dynamics in the market. During the past three years, WTI daily closing prices have fluctuated from a low of approximately US\$34 per barrel to a high of approximately US\$145 per barrel.

On May 11, 2009, the Corporation issued US\$500 million of 7.75 percent unsecured Senior Notes under a private offering memorandum in the United States and Canada. The net proceeds from the offering were used to refinance the maturity of \$200 million of Medium Term Notes in June 2009 and the maturity of US\$250 million unsecured Senior Notes in August 2009 and for general corporate purposes.

On July 31, 2009, the Trust and the Corporation jointly filed a short form base shelf prospectus qualifying an aggregate amount of up to \$1.5 billion of Trust Units, debt securities, warrants or subscription receipts. On September 9, 2009, the Corporation filed a prospectus supplement to the short form base shelf prospectus for up to \$1.5 billion in unsecured Medium Term Notes. No securities have been issued to date under either the base shelf or the supplemental prospectus.

Crown royalties decreased to \$228 million, or \$6.06 per barrel, in 2009 from \$599 million, or \$15.44 per barrel in 2008 primarily reflecting lower revenues. On January 1, 2009, Syncrude transitioned from paying royalties under its previous royalty agreement with the Alberta government to paying royalties based on the new Amended Royalty Agreement reached with the Alberta government during 2008. On October 25, 2007, the Alberta government announced its plan to introduce a new Crown Royalty Framework, which was made effective January 1, 2009 for the Alberta oil and gas industry. Under the generic Oil Sands Royalty regime that was in place in Alberta during 2008 and 2007, the Crown royalty was calculated as the greater of one percent of gross plant gate revenue before hedging, or 25 percent of net revenues, calculated as gross plant gate revenue before hedging, less allowed Syncrude operating, non-production and capital costs. The Syncrude Participants had an agreement with the Alberta government which codified the Crown royalty terms to December 31, 2015. However, the Syncrude Participants entered into negotiations with the Alberta government in 2008 to determine how the Syncrude Project would be transitioned to the Crown Royalty Framework. Key changes to the way in which royalties are calculated as a result of agreements reached during these negotiations were implemented during 2009 as described below.

In 2008, Canadian Oil Sands and the other Syncrude Participants exercised their pre-existing option to convert to a bitumen-based Crown royalty. Effective January 1, 2009, Syncrude pays Crown royalties based on deemed bitumen revenues, less allowed bitumen, operating, non-production and capital costs, rather than paying Crown royalties based on the production of SCO. As part of the conversion to a bitumen-based royalty, only costs related to producing bitumen, rather than the fully upgraded SCO, can be deducted. In addition, costs related to capital expenditures that were deducted in computing Crown royalties on SCO in prior years and that are no longer associated with the royalty base are recaptured by the Crown. The recapture amounts total approximately \$5 billion (\$1.8 billion net to the Trust) and will reduce deductible costs in calculating Crown royalties over the 25 year period 2009 to 2033 resulting in additional future Crown royalties of approximately \$1.25 billion plus interest (\$459 million plus interest net to the Trust) over that time period.

The deemed bitumen revenue under the Amended Royalty Agreement requires that bitumen be valued by a formula that references the value of bitumen based on a Canadian heavy oil price adjusted for reasonable quality, transportation and handling deductions (including diluent costs) to reflect the quality and location differences between Syncrude's bitumen and the reference price of bitumen. The Alberta government, Syncrude and the Syncrude Participants are in discussions to determine the appropriate adjustments for quality, transportation and handling. For estimating and paying royalties, Syncrude has used a bitumen value based on Syncrude's and the Syncrude Participants' interpretation of the Amended Royalty Agreement and estimates of the appropriate quality, transportation and handling adjustments. These adjustments are different than those provided under the generic bitumen valuation methodology. Based on discussions to date among the parties to the Amended Royalty Agreement, the royalty amount for 2009 net to Canadian Oil Sands is about \$40 million less than the amount calculated under the Alberta government's generic bitumen valuation methodology. The Syncrude Participants and the Alberta government continue to discuss the basis for these reasonable adjustments but if such discussions do not result in an agreed upon solution, either party may seek judicial determination of the matter.

Also in 2008, Canadian Oil Sands and the other Syncrude Participants reached an agreement with the Alberta government on terms to transition the Syncrude Project to Alberta's New Royalty Framework. Under the Amended Royalty Agreement, the Syncrude Participants will pay the greater of 25 percent of net deemed bitumen revenues, or one percent of gross deemed bitumen-based revenues, plus an additional royalty of up to \$975 million (\$358 million net to the Trust) for the period January 1, 2010 to December 31, 2015. The additional royalty of \$975 million is reduced proportionally if bitumen production is less than 345,000 barrels per day over the period and is payable in six annual installments as per the schedule outlined on page 70 of this AIF.

After 2015, the Syncrude Project will be subject to the New Royalty Framework that applies to the entire oil sands industry. Currently, this generic royalty regime is based on a sliding scale rate that responds to Canadian dollar equivalent WTI ("C\$-WTI") price levels. The minimum royalty will start at one percent of deemed bitumen revenues and increase when C\$-WTI oil is above \$55 per barrel, to nine percent of deemed bitumen revenues at a deemed C\$-WTI price of \$120 per barrel or higher. The net royalty rate will start at 25 percent of net deemed bitumen revenues and rise for every dollar of C\$-WTI increase above \$55 per barrel up to 40 percent of net deemed bitumen revenues at \$120 per barrel or higher.

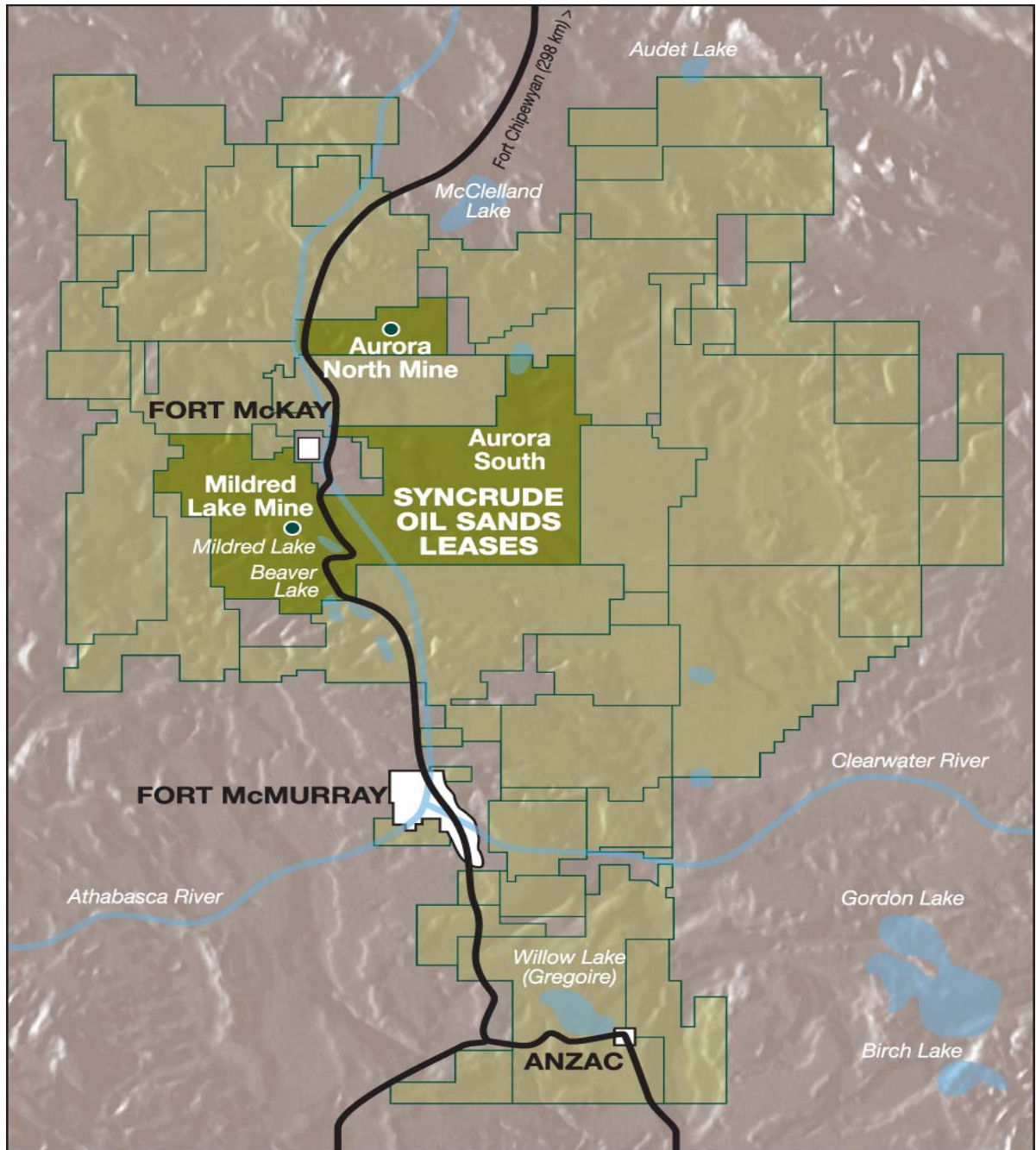
Copies of the Amended Royalty Agreement and the Syncrude Bitumen Royalty Option Agreement are available at www.sedar.com as material contracts of the Trust.

Over the next several years, Syncrude will be reconstructing two mine trains in its North Mine and relocating two mine trains at its Aurora North Mine. In early 2009, SCL and Imperial Oil entered into an agreement whereby Imperial Oil and SCL will co-operate on the engineering and project execution in relation to the design and construction of mine trains at Imperial Oil's Kearl Lake and Syncrude's North and Aurora North mines and potentially, the future development of Syncrude's Aurora South mine. SCL will second certain personnel to Imperial Oil's design and construction team for its Kearl Lake mine trains. In return for this provision of personnel and sharing of cost efficiencies for the entire project, Imperial Oil will allow Syncrude to utilize the design engineering and technology and gain efficiencies in procurement, work force continuity and construction from the experience that Imperial Oil obtains from designing and constructing their mine trains at Kearl Lake.

Syncrude

Syncrude produces light, sweet synthetic crude oil from the Athabasca oil sands deposits by surface mining the oil sands, extracting the bitumen from the sands, upgrading the recovered bitumen into lighter oil fractions, and combining those component fractions into a single synthetic crude oil product. Syncrude does not currently ship a slate of different heavy, light, sweet and sour crude oils. Bitumen, in its raw state, is a thick, tar-like, crude oil that requires diluent and/or upgrading in order to make it transportable by pipeline and more useable to refineries across Canada and the U.S.

The Athabasca oil sands deposits are vast and the Syncrude leases contained in such deposits are illustrated in the following lease map. The resources and reserves estimates on pages 48 to 57 of this AIF that are contained in Syncrude's leases are all considered to be surface mineable, meaning that the layers of oil sands are found beneath a relatively shallow overburden layer. Approximately 20 percent of the total Athabasca oil sands deposits are considered to be surface mineable with the other 80 percent having the oil bearing layers too deep to be reached by surface mining and instead must be exploited using in-situ methods.



Syncrude and other developers of the Athabasca oil sands have pioneered various technologies to mine the oil sands, extract the bitumen, and upgrade the bitumen into synthetic crude oil. Syncrude engineers and scientists continue to focus on technologies to improve the energy efficiency of the various processes, improve the product quality of the finished product, improve bitumen extraction recovery efficiencies and upgrading yield efficiencies, and lessen the environmental impact of the various steps in the process. Some examples of technological advancement include: low energy extraction, which is intended to reduce the amount of energy required to recover each barrel of bitumen and to reduce emissions; slurry hydrotransport, which is a process that uses pumping of an oil sands/water mixture rather than conveying solids with a view to reducing maintenance and operating costs in the material

handling area; and froth pumping, which is an innovative way of pumping thick tar-like bitumen slurried with water rather than with hydrocarbon-based diluents, once again intended to reduce capital, energy and operating costs. The mine train replacements for Syncrude's North Mine plan to incorporate wet crushing technologies which are intended to improve bitumen recovery rates and reduce maintenance costs.

Syncrude began operations in the late 1970s at the Mildred Lake site. The initial mining areas were developed adjacent to the main plant facilities, which contained the extraction plants, the upgrading plants and the utilities plants used to support the entire operation. As the operation continued over the years, and as plant expansions were introduced, the mining operations moved further away from the base operations site. These early mining areas, located near the main processing plants, are known as the Base Mine and the North Mine. In 2000, Syncrude opened a third mining area – approximately 35 km from the base operating area at Mildred Lake – known as Aurora North. While extraction operations associated with the Base and North mines are located at the Mildred Lake site, the Aurora North mine has its own primary extraction facilities. In 2003, mining operations were again expanded with the addition of a second mining and extraction train at Aurora North called "Aurora 2". In 2007, the Base Mine was depleted and the mine was closed. There are currently two operating mining areas, the North and Aurora North Mines.

Syncrude's upgrading facilities also have been expanded over the years. The initial upgrader comprised two fluid cokers, which are designed to break down the bitumen into lighter components. These cokers were de-bottlenecked several times over the years and a third primary upgrading unit, known as the LC finer, was added. The LC finer uses hydrogen and catalyst to crack the bitumen into lighter fractions. In early 2001, after several years of planning, the Syncrude Participants approved Stage 3, which was the largest expansion in Syncrude's history and included both Aurora 2 and an upgrader expansion ("UE-1"). As part of this project, upgrading operations were again expanded with the addition of a larger, more modern third fluid coker, otherwise similar to the original two fluid cokers. As part of UE-1, the quality of crude oil produced by Syncrude was enhanced to one that has a higher cetane level, a higher jet fuel smoke point and less sulphur than previously produced.

The Syncrude Joint Venture expended \$8.6 billion on the Stage 3 project, which includes \$0.7 billion for Aurora 2. Net to Canadian Oil Sands, the total cost for Stage 3 was approximately \$3.1 billion. While productive capacity increased to approximately 350,000 bbls/d, we anticipate that a period for lining out and optimizing the different operating units will be required to ramp up to full productive capacity of 129 million barrels annually, or 47 million barrels net to the Trust. As noted earlier, SCL is working with Imperial Oil/Exxon Mobil under the MSA with an objective of achieving such design capacity by the end of 2010 and into 2011.

The SER project, to retrofit technology into the operation of Syncrude's original two cokers, aims to significantly reduce total sulphur dioxide emissions as well as other emissions, such as particulate matter and metals. It will involve retrofitting flue gas scrubbing facilities into the operation of Syncrude's two existing CO boilers. Once the SER project is operating to specification (around 2011), stack emissions of sulphur compounds are anticipated to be about 60 percent lower than 2008 approved levels. In 2008, Syncrude completed a review of the SER project and revised its cost estimates for the project to \$1.6 billion (\$590 million net to the Trust) from \$772 million (\$284 million net to the Trust). The cost increase reflects a delay in the expected completion date and inflationary pressures. The Trust's share of the SER project expenditures incurred to December 31, 2009 is approximately \$296 million or roughly half of the total project cost estimate. The project was also approximately 50 percent complete at December 31, 2009. Concurrent with the 50 percent completion milestone, Syncrude recently completed a review of the project cost estimate and time to completion with no noted changes.

The new coker that is part of the Stage 3 expansion already includes a sulphur dioxide reduction unit. These measures are expected to reduce total sulphur dioxide emissions by up to 60 percent from current approved levels of 245 tonnes per day. Sulphur dioxide emissions also are expected to meet or exceed the new maximum emission levels that will take effect following the completion of the SER project.

Syncrude incurs both sustaining and expansion capital expenditures. Canadian Oil Sands defines expansion capital expenditures as the costs incurred to grow the productive capacity of the operation, such as the Stage 3 project, while sustaining capital is effectively all other capital. Sustaining capital expenditures fluctuate considerably year-to-year due to the timing of equipment replacement and other factors. Sustaining capital expenditures, including the SER project, are estimated to average \$13 per barrel for 2010. Over the next few years sustaining capital costs are expected to escalate as spending is incurred for large environmental and infrastructure projects, including the relocation of four mining trains. Our per barrel estimates are based on estimated annual Syncrude production increasing from 102 million barrels in 2009 to 129 million barrels at design capacity. Sustaining capital cost estimates will be periodically updated upon the completion of detailed engineering estimates and approval of projects.

We have estimated our share of Syncrude's 2010 capital expenditures to total approximately \$541 million, of which approximately \$133 million will be directed to the SER project. Tailings infrastructure costs are currently being evaluated in light of ERCB Directive 074 (Tailings Performance Criteria), as well as previous environmental commitments. At the current time, we cannot reasonably estimate the cost of such initiatives. See the further discussion on pages 25 to 30 of this AIF.

Over this decade, plans are being developed to expand Syncrude's productive capacity. In December 2009, Syncrude submitted an update report to the regulators further to the conditions for approval received for Aurora South in 1998. A staged approach focusing on unlocking production potential in the existing upgrading facility and building bitumen supply is being developed with the goal of growing volumes from 2015 to 2020. Through a series of debottleneck projects, Syncrude intends to capitalize on investments already made in the existing plant, believing that this will allow volumes to be brought on with lower risk and better rates of return than constructing a new upgrading facility. The roughly 115,000 barrels per day of excess bitumen production, referenced below, would provide Syncrude with operational flexibility and Canadian Oil Sands with the ability to market multiple products (shrinkage occurs in Syncrude's process of converting bitumen to synthetic crude oil, resulting in a yield of about 88 percent from a barrel of bitumen to a barrel of synthetic crude oil).

Syncrude plans to begin constructing a mining train on Aurora South around 2012 with production expected by the end of 2016. Construction on a second mining train is planned to begin around 2014 with production commencing towards the end of the decade. Each mine train is designed for capacity of about 100,000 barrels of bitumen per day, resulting in total bitumen productive capacity of 600,000 barrels per day by 2020 at Syncrude. This volume exceeds the upgrader's debottlenecked processing capacity of approximately 425,000 barrels per day, resulting in roughly 115,000 barrels of excess bitumen supply. Syncrude is considering incorporating new technology in the construction of the Aurora South mine trains aimed at improving bitumen recovery levels, energy efficiency and product quality. The improvement in product quality would also allow for pipeline transportation and sales of surplus bitumen volumes.

Cost estimates for these expansion plans are not yet available. The expansion plans are subject to regulatory approval. As well, approvals from the Syncrude Participants, including Canadian Oil Sands' Board of Directors, are required to move from scoping to detailed engineering work and then construction.

These growth plans would result in Syncrude broadening its production from the current light, sweet synthetic blend to a slate including heavy and sour blends. Decisions regarding further upgrading capacity will be considered in the future in the context of evolving heavy/light crude oil price spreads.

The amount and timing of future capital expenditures is dependent upon the business environment and future projects may be delayed or cancelled in times of low commodity prices.

NARRATIVE DESCRIPTION OF THE BUSINESS

Syncrude Operations

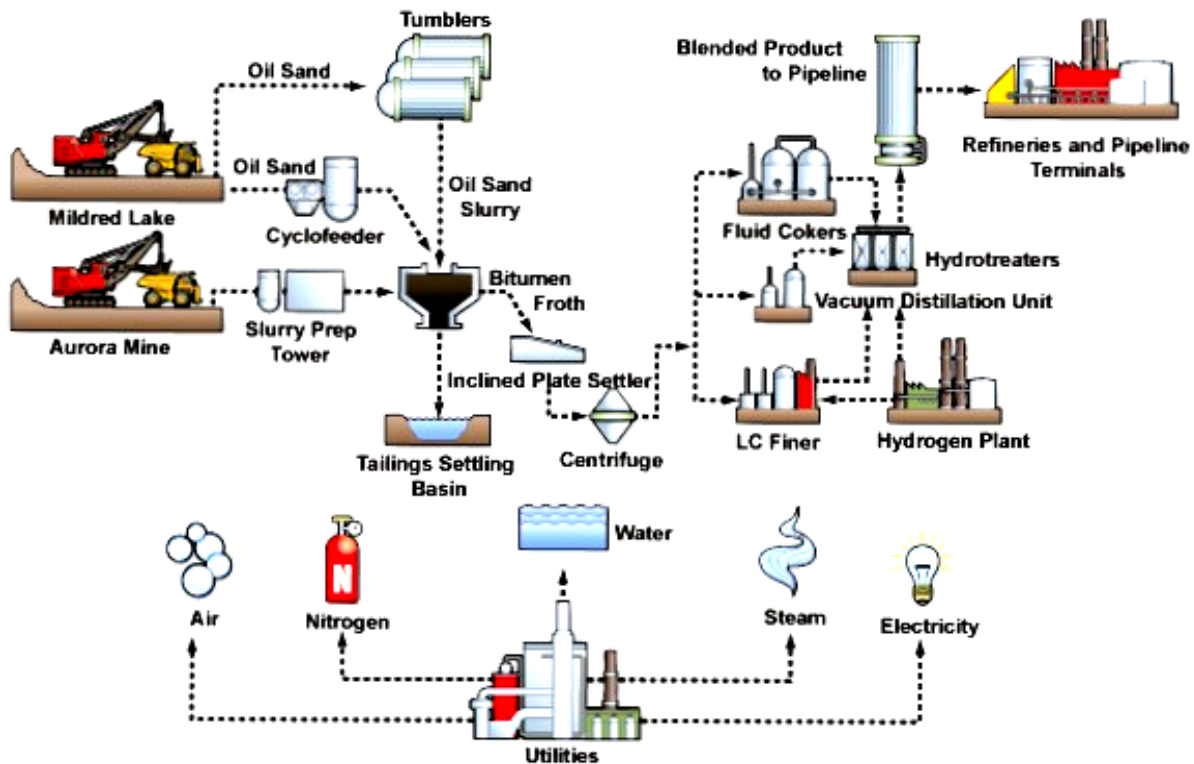
Syncrude is a vast and complex operation. The mines and extraction facilities are among the largest in the world, and the upgrading plants, which could be considered similar in nature to oil refineries, are also among the largest and most complex in the world. As such, a very strong focus on the basics of safety, environmental, operational and business excellence is imperative. We refer to these focus areas collectively as "operational excellence". In order to achieve the goal of operational excellence, Syncrude has identified the following objectives: improve the operational reliability and utilization of all of its operations, reduce unit operating costs, increase bitumen and upgrading productive capacity, improve environmental and energy efficiencies, and capture expansion-related economies of scale. On safety performance, Syncrude's track record of excellence is long-standing and compares favourably with some of the world's best mining and energy companies. In 2009, Syncrude achieved its best ever safety performance record with a lost-time injury ("LTI") rate of 0.04 per 200,000 workforce hours, including permanent and contract workers (2007 and 2005 were the previous best at 0.05 per 200,000 workforce hours; 2008 – 0.07 per 200,000). However, improved overall safety performance was overshadowed by a fatality in each of 2008 and 2009.

The key to operational excellence lies in reliability and cost management. Syncrude's goals include reliability and cost performance improvements through the use of structured operating, maintenance, reliability and procurement standards. Currently, with no significant growth projects underway, the Syncrude Participants have directed SCL to focus on ongoing reliability and performance issues. Safe, reliable operational performance is key to achieving lower per barrel operating costs. The ongoing implementation of the MSA between SCL and Imperial Oil remains a key component of the commitment made by the Syncrude Participants to achieve this improved reliability.

Maintenance work has a key impact on Syncrude's operations and, on the cash from operating activities that Canadian Oil Sands derives. Maintenance work that occurs during the colder winter season may experience more time delays and operational issues due to extremely cold weather conditions. During these times, productivity of the mining operations may be reduced, resulting in temporary decreases of internally produced bitumen. Third party purchased bitumen supply may support increased production during times when excess upgrading capacity is available. Syncrude is focused on improving reliability in the mining operations to meet the rising needs of the upgrader as production is increased to design capacity rates.

During 2009, major planned turnaround and modification work on Coker 8-3 in the second quarter, combined with constrained bitumen production in the first quarter and unplanned outages in the vacuum distillation unit, resulted in lower SCO production than in 2008 and 2007. In response to the bitumen production constraints, Syncrude added contract mining resources and expanded its mining fleet during 2008 and 2009. Syncrude continues to work to improve the productivity of its mining fleet and extraction facilities. These efforts are expected to continue through 2010.

The Syncrude Operations



Mining

Syncrude currently mines oil sands from two mines: the North Mine, located near the Mildred Lake site, and the Aurora North Mine, located 35 kilometres northeast of the base operations site. During 2006 and 2007, mining activities were phased out of Syncrude's original Base Mine. The mining and extraction methodologies utilized at Syncrude have evolved over time as technological innovation has been continuously introduced. The initial mining operations were based on the use of very large draglines, bucket-wheel excavators and long conveyor systems. These original systems have, for the most part, been retired in favour of new technologies. The current mining operations utilize very large shovel excavators and mining haul trucks. This technology, now the standard in the oil sands mining industry, is known as "truck and shovel" mining. The larger shovels can excavate 100 tonnes in a single pass and the larger haul trucks can carry 400 tonnes of material from the mine face to the dumping location. In 2009, a fleet of 20 to 25 shovels and 90 to 110 haul trucks were used in the overburden and oil sands ore mining operations at Syncrude. During 2009 Syncrude added additional haul trucks to increase its ability to reliably produce bitumen for upgrading. In addition to Syncrude's fleet, Syncrude has and will continue to employ contractor trucks to increase material movements as the circumstances dictate.

The Base Mine began operations in 1978 and was exhausted in 2007. It is currently in the process of being backfilled with tailings and being progressively reclaimed. The North Mine began operations in 1997 and the Aurora North Mine in 2000. The Aurora North Mine is comprised of Leases 10, 12 and 34. The Aurora North mine contributed 54 percent of the total bitumen produced from Syncrude in 2009 (2008 – 51 percent) and the North Mine contributed 46 percent (2008 – 49 percent).

Mining operations not only deal with oil sands excavation and delivery to extraction operations but also with overburden removal and disposition. Overburden is the sand and clay material found above the oil sands bearing layer in the Athabasca oil sands formations. It must be removed in order to expose the oil sands bearing layers for mining. In 2009, the total volume of overburden mined was approximately 343 million tonnes compared to 286 million tonnes in 2008 and 226 million tonnes in 2007, reflecting Syncrude's efforts to improve mining reliability and to restore exposed bitumen ore inventories to desired levels.

The South West Quadrant Replacement project was completed in 2005 and has: added a supplemental mining system at the North Mine, feeding the existing Mildred Lake extraction plant; integrated a third material handling train into the Aurora North Mine in addition to the existing two full trains of mining and extraction systems; increased the effective utilization of the two existing Aurora North bitumen production systems; and provided additional thermal energy sources at Aurora North by adding a second 80MW gas turbine generator and heat recovery hot water generator. This additional mining capacity served to offset the phased out production from the Base Mine. Over the next several years, Syncrude plans to relocate two mining trains at Aurora North and replace two mine trains at the North mine to move them closer to the mine face and reduce haul distances and to allow in-pit tailings deposits to continue. These mine train relocations will result in increased sustaining capital costs over the next several years.

Extraction

Historically, all extraction activity occurred at the Mildred Lake plant as the ore was mined exclusively at the Base Mine. As part of the transition from the Base Mine to the North Mine and to the Aurora North Mine, the method of extraction and the location of extraction facilities have changed.

The ore from the supplemental mining system at the North Mine is delivered to the Mildred Lake extraction facilities by conveyor and is then mixed with steam, hot water and caustic soda to produce slurry at a temperature of approximately 80°C. This mixing process occurs in large horizontal rotating tumblers that condition the mixture for separation. This slurry is discharged from the tumblers onto vibrating screens to remove large rocks and lumps of clay prior to entering the primary separation vessel, where the floated bitumen is recovered. Much of this system continues to operate today.

At the North Mine, the ore is crushed in a double roll crusher, and conveyed to a cyclofeeder where it is mixed with warm water and caustic soda to produce a slurry at a temperature of approximately 50°C. The use of warm water in this process as opposed to hot water has led to decreases in energy consumption in this part of the operations. The resulting slurry is screened, and the oversized material is rejected for further crushing and reprocessing. The slurry is further conditioned as it is transported to the Mildred Lake extraction plant via a hydrotransport pipeline where it enters the primary separation vessels.

At the Mildred Lake extraction plant, the slurry from the North Mine flows into primary separation vessels and further separation takes place. The resulting froth is then mixed with the froth from the Aurora North Mine and diluted with naphtha prior to further processing. A final stage of separation removes substantially all of the remaining water and clay fines, leaving bitumen as the feedstock for the upgrader.

The extraction process at the Aurora North Mine is similar to the North Mine, with a few exceptions. After the ore is crushed in the double roll crusher, it is conveyed to a mixbox where it is mixed with water to produce a slurry with a temperature of approximately 35°C. Rather than shipping the oil sands slurry to the Mildred Lake extraction plant, the slurry is transported via a hydrotransport pipeline to one of two primary separation vessels located at the Aurora North Mine (approximately three to five kilometres from the mining area). Here, the sand settles to the bottom of the vessel and is transferred to the Aurora North Mine's tailings pond. The primary froth rises, is recovered and is then piped to Mildred Lake for further processing.

The material remaining after the bitumen is extracted from the oil sands consists of water, sand, fine clay particles and some residual hydrocarbons. This material is sent to a tailings settling basin where the solids settle to the bottom and the clarified water is recycled for re-use in the extraction process. The rate at which the fine tailings settle out of the water is very slow and is the subject of considerable research and development activity to identify the most cost effective and environmentally acceptable disposal method. A composite tails technology using the mature fine tailings from the settling basin to create solid, permanent landscapes in mined-out areas began application at the Mildred Lake site during 2000. The key tailings research and development initiatives proposed for the next few years include: optimization of the composite tailings process; reclamation of tailings deposits; managing recycle water chemistry; and development of supplementary technologies to manage fluid fine tailings from oil sand applications, including mature fine tailings centrifugation, accelerated mature fine tailings, dewatering and thickened tailings. Centrifuging mature fine tails uses mechanical energy to speed up the separation of water and fines freeing up water for reuse and producing a trafficable deposit that can be placed in a designated disposal area creating a dry landscape. Syncrude is continuing to develop the tailings centrifuge technology with a commercial scale pilot plant to be constructed in 2012.

One of the key performance metrics associated with the extraction operation is known as "recovery". Recovery measures the volume of bitumen recovered from the oil sand as a percent of the oil that was contained in the oil sand processed in the extraction plants. In 2009, this recovery factor was approximately 91 percent (2008 – 90 percent). The recovery factors are dependent upon operational reliability. The more reliable the operations, the higher the recovery rate tends to be.

Upgrading

Upgrading is the final process by which the bitumen is converted into SCO. The first step in upgrading is the removal of the diluent naphtha which was added in the extraction plant. This naphtha is recycled to the froth treatment plant for re-use. Next, the bitumen is fed through a vacuum distillation unit in which lighter fractions of hydrocarbons are removed for further processing, as discussed below. The heavier bitumen components are processed in three fluid cokers and one LC finer. While these two forms of upgrading bitumen are somewhat different, they have the same intended purpose, namely to break down the heavier hydrocarbon components into lighter components. The lighter hydrocarbons separated in the vacuum distillation unit are "by-passed" around the cokers and the LC finer because they are already of sufficient quality to be processed directly in secondary upgrading process units. The vacuum distillation unit capacity was expanded as part of the Stage 3 expansion to about 285,000 bbls/d.

Fluid coking involves the thermal cracking of bitumen molecules into lighter components. The by-products of this process include petroleum coke, CO gas and off gas. CO gas is used as fuel in CO boilers to generate steam and power for the facility. Off gas is used as fuel in the upgrader. The residual coke produced in the coker is slurried into a dedicated area of the tailings pond. The two original fluid cokers have been expanded in capacity over the years and, in 2009, each had a nominal capacity rating of approximately 105,000 bbls/d of a 50/50 mix of bitumen and heavier vacuum topped bitumen feed. This

capacity was unchanged from the prior year. The third fluid coker, added in 2006 as part of the Stage 3 expansion, has the same purpose as the original two cokers but is designed to process 95,000 bbls/d of 100 percent vacuum topped bitumen.

The LC finer cracks bitumen molecules into lighter components via the addition of hydrogen and in the presence of a catalyst. This unit does not convert all of the bitumen to light products. An unconverted residual stream also is produced and this stream is sent to the fluid cokers to supplement the feed to those units. In 2009, the LC finer unit had a nominal capacity rating of approximately 50,000 bbls/d of a 60/40 mix of bitumen and vacuum topped bitumen feed. This capacity was unchanged from 2008.

One of the key performance metrics associated with the upgrading operation is referred to as "yield". Yield measures the volume of finished products produced per volumetric measure of bitumen feedstock. In 2009, the upgrading yield was approximately 86 percent, unchanged from 2008.

The lighter hydrocarbon components produced by the three fluid cokers, the LC finer, and those removed in the vacuum distillation unit are then sent to hydroprocessing units for further clean up, particularly for the removal of sulphur and nitrogen. Hydrotreating involves the removal of sulphur and nitrogen compounds via the addition of hydrogen in the presence of a catalyst. The hydrotreated components are then blended together into SCO. This SCO product contains no residuum and is low in sulphur, providing an attractive feedstock to refineries. With Stage 3 complete, the productive capacity of the upgrader rose to 129 million barrels of SCO per year by the end of 2007 compared to 90 million barrels of SCO per year in 2005. Production in 2007, when coker operations were relatively stable and Coker 8-3 was online, production was 111 million barrels. Production of SCO in 2009 was 102 million barrels compared to 106 million barrels in 2008, down in part due to a turnaround of Coker 8-3, operational unreliability and bitumen constraints during the first quarter of 2009.

With the start up of new Stage 3 plants in August 2006, the quality of Syncrude's finished synthetic crude oil blend was improved and re-designated SSP. SSP is designed to have a diesel cetane number of approximately 38, up from the previous number of approximately 33, and a fuel jet smoke point of approximately 19, up from 16. Our expectation was that the quality transition to SSP would occur in 2008 following repairs to the new hydrogen plant. However, the transition occurred in 2007 as a result of the removal of some hydrogen constraints on various units.

Utilities and Offsites

The utilities plants are tasked with producing steam, electricity, air and water for the mining, extraction and upgrading plants. These commodities are often generated from fuels and heat produced as by-products in the major operating areas or from purchased energy sources such as natural gas or electricity.

Syncrude operates utility plants located both at the base Mildred Lake site and at the Aurora North site. Energy systems are highly integrated at the Mildred Lake site, taking advantage of the heat generated in the upgraders and moving that energy to the energy-consuming plants in mining and extraction. At Aurora North, natural gas is purchased to provide the required utilities. Syncrude owns and operates two large gas turbine generators at Aurora North to provide steam and power for the plants.

One of the key operating cost metrics associated with the Syncrude operation is purchased energy consumed per barrel of SCO. In 2009, the purchased energy intensity was 0.99 GJ per barrel compared to 2008 which was 0.95 GJs per barrel. We estimate that long term consumption going forward will be

about 0.85 GJs per barrel as additional hydrogen, which is derived from natural gas, is used to produce the higher quality SCO and as bitumen is increasingly sourced from the Aurora Mine. The Aurora North Mine relies mainly on purchased natural gas for its energy needs as process heat from the upgrader is unavailable due to the mine's remoteness from the Mildred Lake plant. Purchased natural gas prices decreased to \$3.95 per GJ in 2009 compared to \$7.66 per GJ in 2008.

Natural gas, used by Syncrude to fuel operating plants and as feedstock in the production of hydrogen, is transported to Syncrude from Alberta's gas production and transmission infrastructure through dedicated pipelines. The gas is purchased from producers under various supply contracts to manage Syncrude's requirements. This pipeline and storage infrastructure has been expanded in the Athabasca region in recent years to improve the overall deliverability and reliability of the supply system.

Off-sites are generally referred to as those facilities required to support the operation of the main processing plants. These facilities include product storage tank farms, waste water collection and handling systems and flares. Many of these facilities were expanded as part of the Stage 3 expansion project.

Syncrude operates a utility plant at its Mildred Lake site using refinery off gas, produced from the upgrading operation, augmented with natural gas. When operationally and economically desirable, Syncrude purchases power from, or sells power to, the Alberta electric power grid. Syncrude also owns two 80-Megawatt gas turbine power plants at the Aurora North Mine site that provide electrical and thermal energy for the Aurora North Mine operations. These plants are connected with the Mildred Lake facilities. The Aurora Thermal Block ("ATB"), which consists of two hot water generators, has been in operation since mid-2004. The ATB facilities provide hot water generating capacity at Aurora North and allow the extraction process to operate at the required 35°C temperature.

Marketing

Each Syncrude Participant is responsible for marketing its own share of SCO and associated by-products, such as sulphur. After upgrading, the SCO is transported to markets in Canada and the U.S. through a system of inter-connected pipelines and storage locations. SCO is sometimes processed in refineries that have been specifically designed to benefit from SCO's unique properties. More often, however, it is purchased by refiners to blend with other crude oils to form a feedstock mixture which is suited to their specific refinery configuration. There are approximately 150 refineries in Canada and the U.S. Most refineries produce motor gasolines, diesel fuels, heating oils, and jet fuels. Others can also produce asphalts, lubricants and petro-chemicals. There are three refineries in or near Edmonton, Alberta which have the capability of taking synthetic crude oil as 25 percent to 100 percent of their feedstock. These three refineries consume approximately 190,000 to 200,000 barrels per day of synthetic crude oil.

Beginning in 2003, significant additions of synthetic crude oil production have come on-line, impacting where SCO is ultimately consumed. Despite the recent moderation in the pace of growth due to the global recession in 2008 and 2009, the production of synthetic crude oil from projects in the Fort McMurray, Edmonton and Hardisty areas of Alberta is expected to continue to increase. As additional volumes of synthetic crude oil come into the market, our sales are made to a broader group of refineries than was historically the case. In 2004, more of our production was consumed downstream from Edmonton, Alberta to Eastern Canada and the U.S. than in the past. The trend continued through to 2008 levelling off in 2009. While it is difficult to determine where our product is ultimately consumed, we anticipate that as our production volumes increase, the amount of synthetic crude oil production in Fort McMurray and surrounding areas increases, or the takeaway pipeline capacity to additional markets in

central and eastern U.S. increases that we will continue to see a greater percentage of our production being consumed outside of Western Canada given the limited refining capacity in that area.

The growing production of bitumen in Alberta has necessitated the need for additional diluents to thin the bitumen so that it can be transported in pipelines. Traditionally, natural gas condensates, a by-product of the natural gas processing industry, have been the most common hydrocarbon diluent used to thin heavy bitumen for pumping. However, the growth in natural gas condensate production has not kept pace with the rising production of bitumen and new forms of diluent have been required. Synthetic crude oil has emerged as one of those new sources of diluent. The trend of increased use of synthetic crude oil as a diluent, however, is expected to be moderated as pipeline reversals and construction, either currently underway or planned, are expected to allow the import of condensate diluents from the U.S.

Canadian Oil Sands takes title to SCO at Syncrude's plant gate and then the SCO is transported by a pipeline dedicated for use by the Syncrude Participants from Fort McMurray to Edmonton at which point, our SCO volumes are sold or arrangements are made for further transportation. From mid-2001 to mid-2006, EnCana marketed our share of SCO production pursuant to a marketing agreement. During 2006, the marketing agreement with EnCana was not renewed and, effective August 31, 2006, we began marketing our own production. We believe that internalizing marketing has provided greater insight into our customer needs and assisted in the long term development of product quality and distribution strategies. Members of our marketing group hold positions on various crude oil and other committees of the Canadian Association of Petroleum Producers, focusing on ensuring that policy decisions reflect the unique needs of SCO oil producers. Due to new synthetic crude oil supply from the completion of several projects in the Fort McMurray region in late 2008 and 2009, pipeline takeaway capacity ex Western Canada was initially expected to be tight. As a result of the deferral of some projects, and delays in the ramp up in production of other projects coming on line, pipeline capacity was more than adequate during 2009. Several modest pipeline capacity expansions completed in 2009 as well as a couple of larger pipeline projects scheduled for completion in 2010 have actually resulted in the expectation that there will be excess pipeline capacity over the next few years. While this may have an impact on the transportation costs that Canadian Oil Sands incurs, risks due to apportionment that were anticipated for 2009 and early 2010 also had cost impacts.

Synthetic crude oil sales contracts are commonly negotiated directly with refiners throughout North America. Typical contract terms are based on 30, 60 or 90 day arrangements which continue unless terminated but are occasionally made for one year terms. Synthetic crude oils are usually priced each month on the basis of Canadian and U.S. market prices, which reflect the market balance between supply and demand for crude oil, transportation costs and refined product values. In 2009, sales to one multinational customer were more than 10 percent of the Trust's consolidated revenues, such sales were on market terms.

Syncrude also removes sulphur as part of its upgrading process. Currently, the majority of this sulphur is stockpiled at Syncrude's Mildred Lake plant site. Over the past few years, Syncrude has been exploring the ability to store sulphur blocks underground. Initial information indicates that this may be a viable and environmentally friendly solution. Syncrude continues to research alternatives for addressing this issue, which may help other sulphur producers in the petroleum industry. Canadian Oil Sands has also made sales of sulphur from time to time of its share of Syncrude's sulphur production.

Competition

The Canadian and international petroleum industry is highly competitive in all aspects, including the distribution and marketing of petroleum products. Syncrude competes with other producers of

synthetic and conventional crude oil. Most of the conventional producers have considerably lower operating costs but higher finding costs. The petroleum industry also competes with other industries in supplying energy, fuel and related products to consumers. In particular, the increased activity in construction of new oil sands projects and in the production and mining of oil sands over the past several years generally created shortages in the supply of skilled labour and certain equipment components used in mining operations. Despite the moderation in the pace of growth in the Fort McMurray region, certain skilled labour groups remain in short supply and our operations were, and continue to be, impacted by labour shortages both on cost and scheduling aspects. Due in part to the global recession and the moderating pace of growth, the rate of labour turnover at Syncrude decreased in 2009 compared to 2008 and 2007. The decrease in turnover also reflects a slowing number of retirements that peaked in 2008, reflecting the demographics of a 30 year old operation at Syncrude. Turnover has been mitigated in part through the MSA where secondees from Imperial Oil/ExxonMobil have been provided, or service areas moved to be supplied by Imperial Oil. Overall, Canadian Oil Sands has not observed a significant reduction in the cost of construction or major maintenance activities as a result of the credit crisis and economic downturn in late 2008 and 2009. The recent announcements of the resumption of several oil sands projects indicate the competition for labour and materials will continue to be a risk factor in the coming years.

Seasonal Factors

As the Syncrude Project is located in Northern Alberta, work during winter months is often more difficult as the extreme cold temperatures make steel brittle and limit the time that individuals can work in areas exposed to the elements. Accordingly, this may impact operating and capital costs as demonstrated by an operational upset that occurred in January 2008. Quarterly variances in revenues, net income, and cash from operating activities are caused mainly by fluctuations in crude oil prices, production and sales volumes, operating costs and natural gas prices. Net income also is impacted by non-cash foreign exchange gains and losses caused by fluctuations in foreign exchange rates on our U.S. dollar denominated debt, and by future income tax changes. A large proportion of operating costs are fixed and, as such, unit operating costs are variable to production volumes. While the supply/demand balance for synthetic crude oil affects selling prices, the impact of this equation is difficult to predict and has not displayed significant seasonality. Syncrude maintenance and turnaround activities are typically scheduled to avoid the winter months. However, the exact timing of unit shutdowns cannot be accurately scheduled, and unplanned outages occur. Accordingly, production levels also may not display reliable seasonality patterns or trends. Maintenance and turnaround costs are expensed in the period incurred and can lead to significant increases in operating costs and reductions in production in those periods, as demonstrated in 2009 by high per barrel operating costs of \$50.23 in the second quarter versus \$27.80 in the third quarter, and \$35.29 on an annual basis. Natural gas prices are typically higher in winter months as heating demand rises, but this seasonality is significantly influenced by weather conditions and North American natural gas inventory levels which are currently at historic highs.

Cost escalation, particularly as a result of inflationary pressures in the Fort McMurray area, has been a significant trend over the last several years. Over the last few years, the Trust's depletion and depreciation rate, asset retirement obligation, operating and capital costs have all been impacted by higher actual and estimated costs of materials, services and labour. While the economic down-turn may have partially mitigated the impact of such inflation pressures, long term we anticipate that these inflationary pressures will continue in light of the significant level of expected oil sands activity.

Environmental Protection

The oil and gas industry in Alberta is subject to extensive controls and regulations. The regulatory scheme, as it relates to oil sands, is somewhat different from that relating to conventional oil and gas production. Outlined below are some of the more significant aspects of the legislation and regulations governing the mining, extraction, upgrading and marketing of oil sands.

Environmental Regulation and Compliance

Oil sands operations, including Syncrude, are subject to environmental regulation pursuant to provincial and federal legislation. Environmental legislation requires various approvals and provides for restrictions and prohibitions on releases or emissions of various substances produced or utilized in association with certain oil and gas industry operations. In addition, legislation requires that facilities and operating sites be abandoned and reclaimed to the satisfaction of provincial authorities. A breach of such legislation may result in the imposition of fines and penalties. In Alberta, environmental compliance is primarily governed by the AEPEA. The AEPEA imposes certain environmental responsibilities on oil and natural gas operators in Alberta and, in certain instances, also imposes significant penalties for violations. SCL has received and presently maintains the requisite environmental approvals necessary to operate the Syncrude Plant.

The December 1999 AEUB approval of Syncrude's upgrading expansion application allows production of 173 million barrels of SCO per year using technology identified in the application. This permit expires on December 31, 2035. Environmental approvals (primarily managed by AENV through AEPEA and the *Water Act*) and resource development approvals (primarily managed by the ERCB under the *Oil Sands Conservation Act*) have interrelated conditions governing both energy resource management and environmental protection issues. The ERCB and AENV manage these approvals through a harmonized process, as defined in the ERCB Information Letter IL96-07.

In 1996, Syncrude submitted an application and environmental impact assessment (“EIA”) for the Aurora mine project to the ERCB and AENV. Following a review of the application, EIA and supplementary filings, Syncrude received ERCB Approval 8250 for the Aurora mine project, which included the Aurora North and South mines and supporting infrastructure. AENV subsequently issued an approval under AEPEA for the construction, operation, and reclamation of the Aurora North mine. ERCB Approval 8350 (subsequently replaced with Approval 10781A) stipulated that Syncrude not begin development of the Aurora South mine until it had completed additional evaluations to the ERCB's satisfaction. These evaluations were to be completed and submitted no later than December 31, 2011. Syncrude has undertaken these evaluations and submitted a report to the ERCB on December 23, 2009. The ERCB is currently reviewing this submission.

Syncrude also maintains approvals from AENV regulating the discharge of substances into the air and water. These approvals were issued with 10 year terms, the maximum term permitted by this legislation. The renewal or modification of approvals generally involves AENV soliciting the views of stakeholders (the local community, Aboriginal population and other interested persons). Renewal or modification of approvals is often conditional, permitting AENV to review the effect of discharges or the implementation and effectiveness of new technologies. AENV approval for the Aurora North operations was received in 1998. SCL received an environmental approval for its Mildred Lake oil sands processing facilities, Base Mine and North Mine operations until June 23, 2007. A new AEPEA approval, governing both the Mildred Lake and Aurora facilities, was issued in June 2007 and is effective until June 23, 2017.

In the approval, the AEPEA stipulated revised parameters for soil salvage, soil placement thickness and soil layering requirements as part of Syncrude's reclamation obligation. This was the primary reason for

the 31 percent increase in Canadian Oil Sands' asset retirement obligation from December 31, 2006 to December 31, 2007.

On February 12, 2009, the Alberta government released its 20-year strategic plan for Alberta's Oil Sands (the "Oil Sands Plan"). Although lacking in detail and specifics on implementation, this plan signals the Alberta government's position on a number of important issues, including regional cumulative effects management, greenhouse gases, industry investment in infrastructure, and increasing regulatory scrutiny. The ultimate resolution of these issues are expected to have a significant impact on oil sands developers, including Syncrude. The Oil Sands Plan outlines six strategies to achieve the desired outcomes of (i) optimized growth; (ii) reduced environmental footprint; and (iii) increased quality of life for Albertans. The six key strategies set out in the Oil Sands Plan are as follows:

1. Develop Alberta's oil sands in an environmentally responsible way;
2. Promote healthy communities and a quality of life that attracts and retains individuals, families, and businesses;
3. Maximize long-term value for Albertans through economic growth, stability, and resource optimization;
4. Strengthen the Alberta government's proactive approach to Aboriginal consultation with a view to reconciling interests;
5. Maximize research and innovation to support sustainable development and unlock the potential of Alberta's oil sands; and
6. Increase available information, develop measurement systems, and enhance accountability in the management of the oil sands.

Each of the six strategies list a number of goals and objectives that are integral to its achievement. The Oil Sands Plan also identifies a number of "priority actions" relating to environmental stewardship, strengthening communities, economic prosperity and building relations.

The Oil Sands Plan does not address how measures to achieve its strategies will be enforced nor does it set any timelines for implementation. Nevertheless, the Oil Sands Plan signals the Alberta government's position on a number of issues that will impact oil sands developers, including Syncrude. It is possible that the high level objectives arising from these strategies may eventually manifest in binding legislation.

The Oil Sands Plan is designed to build on the Provincial Energy Strategy and reinforce the Land-Use Framework released in December 2008. This integration of initiatives is especially apparent with respect to the Alberta government's focus on cumulative effects management on a regional level. The Oil Sands Plan reiterates the Alberta government's goal of setting regional thresholds for air, water, land and biodiversity. In addition to this, one of the listed "priority actions" is to revise the current environmental impact assessment process to support cumulative effects management. One of the goals of the Oil Sands Plan is to meet or exceed Alberta's greenhouse gas reduction objectives. A continued commitment to carbon capture and storage projects is listed as one of the "priority actions". The Oil Sands Plan speaks of partnerships between industry, federal government and municipalities and industry investments in public and community infrastructure. Working with industry to develop financial contribution strategies is one of the "priority actions" of the Oil Sands Plan. The Oil Sands Plan also

identifies a long-term investment commitment by both industry and government as one of the key success factors. The Oil Sands Plan is consistent with the trend towards increasing regulatory scrutiny of industry and as such Syncrude and Canadian Oil Sands may have increased costs and legal obligations in the future as a result of legislation that may be enacted to achieve this Oil Sands Plan.

Syncrude Participants, including Canadian Oil Sands, are liable for their share of ongoing environmental obligations for the ultimate reclamation of the Syncrude Joint Venture properties. The asset retirement obligation, or ARO, represents the present value estimate of Canadian Oil Sands' share of these costs for the mine and extraction facilities.

Canadian Oil Sands records the discounted estimated fair value of the future reclamation liability (ARO liability) on our Consolidated Balance Sheet as an increase to capital assets and as an ARO liability. The depreciation expense on the asset and the accretion expense on the obligation are recorded in depreciation, depletion and accretion expense. At December 31, 2009, the ARO liability recorded on the Consolidated Balance Sheet was approximately \$389 million compared to \$235 million in 2008. The increase reflects the impact of continued inflation, revised material movements as a result of preliminary changes to the mine plan and a change in the expected timing for reclamation expenditures. Canadian Oil Sands' share of Syncrude cash reclamation expenditures was about \$25 million in 2009 and \$14 million in 2008 which expenditures reduced the liability shown on our balance sheet. A full discussion of our accounting for the reclamation liability can be found in the notes to our consolidated financial statements in our 2009 annual report.

Since the inception of the Syncrude Project, the Syncrude Joint Venture is required to post annually with the AENV irrevocable letters of credit equal in amount to \$0.03 per barrel of SCO produced from the Base Mines since inception of the Syncrude Project plus estimated reclamation costs relating to the Aurora North Mine to secure the ultimate reclamation obligations of the Syncrude Project. As at December 31, 2009, Canadian Oil Sands had posted letters of credit with the Province of Alberta in the amount of \$70 million in 2009 compared to \$67 million in 2008, to secure its pro rata share of the ultimate reclamation obligations of the Syncrude Participants.

In addition to posting a letter of credit for its share of reclamation with the AENV, Canadian Oil Sands currently pays \$0.1322 for each barrel of SCO produced and attributable to our 36.74 percent working interest to a reclamation trust to fund our share of reclamation obligations for the Syncrude Project. Since 2002, we have the right to adjust the amount deposited in the mining reclamation trust from time to time as estimates of final reclamation costs change. As at December 31, 2009, we have accumulated (including interest earned on contributions), \$48 million towards future reclamation in the reclamation trust. At December 31, 2008, this amount was \$43 million.

In 2009, Syncrude's site reclamation expenditures totaled \$68 million (2008 - \$36 million) and approximately 97 hectares of land (2008 - 11 hectares) were reclaimed. Syncrude's long term plan is to return the land to a stable, biologically self-sustaining condition with a vision of creating an area of forest, parklands and lakes. As at December 31, 2009, Syncrude had reclaimed more than 4,500 hectares of the land affected by its operation and planted approximately 5 million seedlings in the Athabasca area since 1978. A significant portion of the land that has been reclaimed by Syncrude is used as a grazing ground for more than 300 wood bison.

In 2008, the Alberta government certified a parcel of reclaimed land north of Fort McMurray. The 104 hectares, known as Gateway Hill, was submitted by Syncrude to the Alberta government in 2003 for certification. AEPEA requires operators to conserve and reclaim specified land and obtain a reclamation certificate. These certificates are issued to operators when their site has been successfully

reclaimed. Syncrude was the first in the oil sands industry to receive certification for land that had been reclaimed.

The construction and operation of a large oil sands project such as Syncrude presents many environmental challenges. Responsible environmental management is a priority of the Syncrude Participants. The technical and managerial challenges to date have been addressed by SCL through many years of investment in research and the development of advanced management systems. SCL continues to seek ways to improve and reduce the cost of reclamation.

Since March 1, 2010, SCL has been engaged in a trial related to an incident at the Aurora settling basin in April 2008 when an unusually large number of waterfowl landed and became covered in the residual oil on the basin's surface. In February 2009, SCL was charged under the federal *Migratory Birds Convention Act* and the AEPEA for the incident. SCL has publicly admitted its moral obligations for such incident. However, given the type of sections under which the provincial and federal prosecutors have charged SCL and, after having reviewed the evidence and the law, SCL has plead not guilty to the charges laid. SCL plans to explain the reasons for such position in its defense during the course of the trial, which is scheduled to last until late April, 2010.

SCL and the Syncrude Participants take pride in Syncrude's commitment to environmental excellence and strive to minimize the impact that Syncrude's operations have on wildlife. Both SCL and the Syncrude Participants were deeply troubled by the April 2008 incident and took immediate actions to prevent reoccurrence. Since 2008, SCL has deployed year-round deterrents on the settling basins in areas that are not frozen, introduced an enhanced monitoring system and increased the number of deterrents around the basins by about 30 percent in an effort to prevent such incident reoccurring. SCL believes that it is currently in compliance with all material environmental requirements.

Over the past two years, a number of environmental groups and activists have focused on the negative aspects of developing the oil sands in Canada. This had lead to an unbalanced view of the impact of the oil sands. Accordingly, the Trust and other oil sands operators have initiated a public education campaign aimed at providing the facts about the oil sands industry and its track record over the years in terms of technological advances and economic benefit to not only Alberta but to Canada and the United States. In particular, Mr. Coutu began a speaking tour throughout Canada in 2009 where he spoke to investors, government officials, university students and professors and the general public as to the facts about the oil sands industry and what initiatives were being developed to address some of the challenges of the industry regarding the environment.

The Syncrude Participants support the voluntary reduction of greenhouse gas emissions, such as carbon dioxide, from Syncrude's operations. SCL is focused on reducing both energy consumption and greenhouse gas emissions per barrel of SCO produced rather than purchasing offsets or credits. SCL participates in the Cumulative Environmental Management Association and other organizations concerned with environmental, Aboriginal and community development matters.

A number of environmental regulations focus on limiting the emissions of gases and other substances from the Syncrude operations. In 2007, the Alberta government's Specified Gas Emitters Regulation under the *Climate Change Emissions Management Act* came into effect. The current regulation requires that facilities emitting more than 50,000 tonnes of greenhouse gas ("GHGs") per year ("Large Emitters") must reduce their GHG emissions intensity by 12 percent over the average emissions intensity levels of 2003, 2004 and 2005. If the emissions intensity target is not met through improvements in operations, compliance tools include: per tonne payment into the climate change and emissions management fund; purchase of Alberta based offsets; or purchase of emission performance

credits from a different Alberta facility. The charge payable to the fund is \$15 per tonne for each tonne in excess of the target. The regulation pertaining to GHG compliance costs has been in effect since July 1, 2007. These payments are deposited into an Alberta-based technology fund for developing infrastructure to reduce emissions or support research into climate change solutions.

In 2009 and in 2008, Syncrude accrued approximately \$0.10 per barrel for compliance with the Specified Gas Emitters Regulation, which is reflected in the Trust's operating costs for the year. For 2008, Syncrude paid \$6.7 million into such fund and in 2007, \$900,000. The confirmation of the amount for 2009 is pending and no cost estimates are available yet for future years.

On April 27, 2007 and March 10, 2008, the federal government released and enhanced, respectively, the Regulatory Framework for Air Emissions (the "Framework") which also sets out new federal GHG and air pollutant emission reduction targets. The Framework contemplated an emissions-intensity reduction target for existing facilities of an initial enforceable reduction of 18 percent from 2006 emission-intensity levels starting in 2010. Oil sands mines and upgraders which begin operations between 2004 and 2012 (including major expansions, defined as increasing capacity by at least 25 percent) would be required to make a "clean fuel standard" emissions intensity reduction in addition to the initial 18 percent reduction. However, the Minister of the Environment has subsequently indicated that new federal GHG regulations are pending that, rather than the emissions intensity regime contemplated by the Framework, will create a "cap and trade" regime so as to harmonize with US initiatives. On January 31, 2010, the federal government committed under the Copenhagen Accord to reducing GHG emissions by 17 percent from 2005 levels, which is the same target adopted by the United States and similar to that which underpinned the Framework. The scope and timing of the expected regulations is unclear and accordingly we cannot assess its impact on our business.

Refer to the "Risk Factors" section of this AIF for a description of the risks associated with the various Environmental Regulations to which Syncrude is subject.

Regulation of Operations

In Alberta, the regulation of oil sands operations is now undertaken by the ERCB, which replaced the AEUB effective January 1, 2008. The ERCB derives its jurisdiction, in part, from the *Oil Sands Conservation Act* (Alberta). In addition to requiring certain approvals prior to the operation of an oil sands project, the *Oil Sands Conservation Act* (Alberta) allows the ERCB to inspect and investigate oil sands operations and, where a practice employed or a facility used in respect of the oil sands operations does not meet operating criteria recovery targets, to make remedial orders. Certain changes to an oil sands operation also require the approval of the ERCB. Tailings are a waste by-product of oil sands extraction processes which are generally composed of water, sand, silt, clay and residual bitumen. Tailings are sent to tailings ponds where solids settle and water is recycled. Coarse solids settle rapidly, but fluid fine tailings can remain in suspension for many years, if not indefinitely. Although some test pits have been reclaimed, to date no tailings pond has been reclaimed in the Alberta oil sands as tailings ponds remain an integral part of operating the facilities and, in particular, allow the recycling of water in the operations.

On February 3, 2009 the ERCB issued Directive 074; Tailings Performance Criteria and Requirements for Oil Sands Mining Schemes ("Directive 074"). The directive is the first component of a larger initiative for the ERCB to regulate tailings management. Directive 074 applies to all existing, approved, and future oil sands operators. Operators must make submissions to the ERCB on how they will meet the new requirements. Requirements will be phased-in and adapted as approved by the ERCB, taking into account the particular circumstances of a project. Operators also are required to assess and

compare their actual tailings performance against their approved tailings plans. Any significant changes to tailings management must be reported to the ERCB and may require an application for an amendment to the approval. Directive 074 requires operators to:

- Reduce fluid fine tailings by capturing a minimum amount of fines in Dedicated Disposal Areas (DDA). Fines are mineral solids with particle sizes equal to or less than 44 micrometres. The amount of fines going into DDAs must be equivalent to 20 percent of processed fines in 2011, 30 percent in 2012, and 50 percent in 2013 and annually thereafter;
- Form and manage DDAs to ensure the formation of trafficable deposits that are ready for reclamation five years after active deposition has ceased; and
- Submit to the ERCB an annual tailings plan starting September 30, 2009. Submit annual compliance reports for DDAs and pond status reports starting September 30, 2011. DDA plans must also be submitted two years prior to construction. Baseline surveys for DDAs and each fluid tailings pond must be reported by September 30, 2010. The Directive 074 also requires the submission of quarterly progress reports on fines capture starting in the third quarter of 2010.

Syncrude submitted its initial report to the ERCB on September 30, 2009 and subsequently has held discussions with the ERCB on its plans. As of March 22, 2010, no further information has been provided by the ERCB to Syncrude.

On March 11, 2010, the Alberta government announced its policy response to the results of the Competitiveness Review that the Alberta government commissioned to compare Alberta's treatment of the energy industry relative to other jurisdictions ("Competitiveness Review"). A major outcome was launching a cross-ministry task force to streamline regulatory applications and create a "performance based" system. It is not yet clear how this initiative will affect oil sands mining operations like Syncrude.

Land Tenure

Oil from oil sands is produced under oil sands leases granted by the Province of Alberta. Such leases have initial terms which vary in length but generally are for 15 years. Although the terms of future leases may vary, the current Syncrude leases have, for the most part, 15-year terms. If production attributable to a lease exceeds the minimum production thresholds set forth in the lease, it automatically renews at the end of each term. In addition, leases renew automatically if a development plan for a project involving the lease has been approved by the Minister of Energy and is being pursued by the lessor. In 1997, the Province of Alberta approved the continuation of the four Aurora leases (being leases 10, 12, 31 and 34) based on the Syncrude Project development plan, including the Aurora project, and so long as such plan and approval is in effect and being followed, the Aurora leases will continue to renew at the end of each term. In 1999, SCL received confirmation that Leases 29 and 30 also are included for tenure purposes within the Syncrude Project development plan. In 2002, Leases 17 and 22 were continued under section 13 of the Oil Sands Tenure Regulations AR 50/2000 for an indefinite term with a production status.

In 2009, as part of a leasehold swap aimed at increasing recovery of bitumen from the government leases by all oil sands operators, Syncrude acquired Lease 52 from the Fort Hills Partnership.

Royalties and Taxes

The Province of Alberta imposes royalties of varying rates on the production of crude oil from lands where it owns the mineral rights. The products recovered by Syncrude are subject to a royalty which is payable to the Alberta government.

In January 2002, following the conclusion of a transition period, the Syncrude Participants commenced paying royalties under the Oil Sands Royalty Regulations 1997. This legislation stipulates that the Province of Alberta will receive the greater of one percent of the gross revenues after transportation costs and 25 percent of the net revenues. The net revenues for any year are generally equal to the excess of gross revenues over allowed transportation, operating and non-production costs, capital expenditures and any unutilized carry forward deductions from previous years. In May 2006, Syncrude began paying Crown royalties at the higher 25 percent of net revenues royalty rate, resulting in significantly higher Crown royalties in 2008, 2007 and 2006 compared to prior years.

As noted earlier on pages 13 and 14 of this AIF, on October 25, 2007, the Alberta government announced its plans to introduce a New Royalty Framework, effective January 1, 2009, for the energy sector. The New Royalty Framework for oil sands projects is based on a sliding scale royalty rate that responds to C\$-WTI oil price levels. The minimum royalty rate starts at one percent of deemed bitumen revenues and increases for every C\$-WTI oil is priced above \$55 per barrel, to nine percent of deemed bitumen revenues at \$120 per barrel or higher. The net royalty rate starts at 25 percent of net deemed bitumen revenues and increases for every dollar of C\$-WTI above \$55 per barrel up to 40 percent of net deemed bitumen revenues at \$120 per barrel or higher. In addition to the revised royalty rates, the announced changes also note the Alberta government's intention to take bitumen production in kind in lieu of Crown royalty payments.

As part of the transition to the Generic Regulations, the Syncrude Participants had a Crown Agreement with the Alberta government that codified the royalty terms of the greater of one percent of gross revenues and 25 percent of net revenues to December 31, 2015. The Crown Agreement also provided Syncrude with a one time option prior to 2010 to convert from a royalty based on synthetic crude oil to a bitumen based royalty consistent with the rest of the Alberta oil sands industry. Under the Crown Agreement, a royalty based on crude bitumen provided for recapture by the Crown of the remaining value of costs previously deducted relating to upgrader growth capital in accordance with an amortization methodology agreed to by the parties.

During 2008, the Syncrude Participants negotiated with the Alberta government as to how such New Royalty Framework would apply to the Syncrude Project as well as the details regarding the Syncrude conversion to a bitumen based royalty, including the upgrader growth recapture amount and amortization methodology. The Syncrude Participants exercised their pre-existing option to pay Crown royalties based on bitumen rather than the upgraded SCO product. The Syncrude Participants and the Alberta government also reached an agreement on the terms by which the Syncrude Project would be transitioned to Alberta's New Royalty Framework. Effective January 1, 2009 Syncrude started paying Crown royalties under the terms of the Amended Royalty Agreement and the Syncrude Bitumen Royalty Option Agreement.

While the March 11, 2010, Competitiveness Review announced changes to conventional oil and gas royalties, it did not do so for oil sands royalties.

Taxation of Syncrude-related income follows normal resource industry practices with a few important differences. As Syncrude is a mining operation, there are certain provisions that are unique, such as the accelerated capital cost allowance ("ACCA") up to the income from a mine for class 41(a) assets which applied to new mines or a major expansion of an existing mine where there was a 25 percent or

greater increase in mine capacity. Effective March 6, 1996, mining and oil sands operations, which have made capital expenditures in excess of five percent of gross revenue in a fiscal year, were also eligible for ACCA for such expenditures over the five percent threshold included in class 41(a.1). The federal government, in its March 19, 2007 budget, proposed the phase out of ACCA for oil sands projects. The current ACCA will continue to be available for assets acquired before March 19, 2007 and for assets acquired before 2012 that are a part of projects where major construction commenced prior to March 19, 2007. Other assets will still be eligible for ACCA but will be subject to phase-out rates between 2012 and 2015. The standard 25 percent capital cost allowance rate will continue to apply after 2015.

Employees

As at December 31, 2009, the Corporation employed 22 full-time and four part-time employees and four consultants. The Trust has no employees.

At the end of 2009, as the operator of the Syncrude Project, SCL, employed approximately 5,605 people, all of whom were non-unionized. While it is believed that SCL will remain non-unionized, no assurance can be given that the workforce will not become unionized.

SCL also uses the services of various outside contractors to provide contract maintenance support for certain areas of the Syncrude Plant. Additional contractors also are required during shutdowns, maintenance work and major capital construction. Most of the workers employed by these contractors are unionized. Labour stability of the unionized contractor work force is maintained through a number of industry and site-wide agreements, which set labour rates and working conditions for unionized trade workers engaged in construction and maintenance activities at various projects in Alberta, including the Syncrude Plant.

RISK FACTORS

Risks Relating To Canadian Oil Sands' Business

The operations of Canadian Oil Sands are highly dependent on the price of crude oil

The financial condition, operating results and future growth of Canadian Oil Sands are substantially dependent on prevailing and expected prices of oil. Prices for oil are subject to large fluctuations in response to relatively minor changes in the supply of and demand for oil, market uncertainty and a variety of additional factors, all of which are beyond the control of Canadian Oil Sands. In the last three years, crude oil prices ranged between a high of US\$145 per barrel to a low of US\$34 per barrel. Prices are influenced by global and regional supply and demand factors. These factors include: the condition of the Canadian, U.S. and global economies; weather conditions in Canada and the U.S.; the actions of the Organization of Petroleum Exporting Countries; governmental regulation; political stability in the Middle East and elsewhere; war, or the threat of war, in oil producing regions; the 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 and natural gas prices, but also fluctuating price differentials between heavy and light grades of crude oil, which can impact prices for SCO. Oil prices have fluctuated widely recently and we expect continued volatility and uncertainty in crude oil prices. A prolonged period of low crude oil prices could affect the value of our crude oil properties and the level of spending on growth projects and could result in curtailment of production. Accordingly, low crude oil prices in particular could have an adverse impact on our financial condition and liquidity and results of operations. The operating margin is very sensitive to oil prices. Any substantial and extended decline in the price of oil would have an adverse effect

on the revenues, profitability and cash from operating activities of Canadian Oil Sands and may likely affect the ability of Canadian Oil Sands to pay distributions and to repay its debt obligations.

While the Syncrude Project has not been shut down for non-operational reasons by the Syncrude Participants since production commenced in 1978, a prolonged period of very low oil prices could result in the Syncrude Participants deciding to suspend production. Any such suspension of production could expose Canadian Oil Sands to significant additional expense and would negatively impact its ability to pay distributions and to repay its debt obligations.

There are a number of risks particular to the Syncrude operations that could have a material adverse impact on Canadian Oil Sands

Currently, our interest in the Syncrude Project is our only material asset and generates substantially all of our cash from operating activities. The Syncrude Project is a single inter-related and inter-dependent facility. The shutdown of any part of the Syncrude Project could significantly impact the production of SCO. A shutdown may reduce, or even eliminate our cash from operating activities. Also, complications could arise when new systems are integrated with existing systems and facilities. The risk of such complications is somewhat mitigated by Syncrude's procedures of performing a sequenced start-up of units. However, there can be no assurance that the Syncrude Project will produce SCO in the quantities or at the cost anticipated, or that it will not cease producing entirely in certain circumstances. Operating costs to produce SCO are substantially higher than operating costs to produce conventional crude oil. An increase in operating costs could have a materially adverse effect on Canadian Oil Sands, our net income and cash from operating activities. As the large majority of Syncrude's operating costs are fixed, any reduction in production volumes significantly impacts our operating margin.

The Syncrude Project is located in a remote area and is serviced by one all-weather road from Fort McMurray. In the event that the road is closed due to climatic conditions or other factors, SCL may encounter difficulties in obtaining materials and labour required for it to continue production.

As the Syncrude Project is our only material producing asset, any major incident, either operational or otherwise, involving Syncrude's operations or the pipelines which transport our product could result in a substantial or total reduction in sales of our product for a prolonged time frame, which would have a material impact on our ability to generate cash from operating activities and therefore negatively impact our ability to meet our operating and debt requirements in the interim until operations could be resumed.

The production of SCO requires high levels of investment and has particular risks, such as settling basin dyke failures, fires, explosions, gaseous leaks, spills and migration of harmful substances, any of which can cause personal injury, damage to property, equipment and the environment, and result in the interruption of operations. Moreover, there are regulatory and economic risks associated with the emerging technologies required to economically and feasibly produce SCO at the Syncrude Project.

For example, there are limited assurances that current reclamation technologies associated with the fine tailings meet the tailings management criteria established in Directive 074, which may result in enforcement actions ranging from non-compliance fees to increased inspections and suspensions or cancellations of approvals in addition to new investments in research. As such, there may be greater technological risks. Some of these risks cannot be insured.

Syncrude produces and stores significant amounts of sulphur in sulphur blocks at its plant site as there is presently a limited market for the sulphur. There can be no assurance that future environmental

regulations pertaining to the use, storage, handling and/or sale of sulphur will not adversely impact the unit costs of production of SCO.

Canadian Oil Sands has exposure to financial market risk

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

Foreign Currency Risk

Canadian Oil Sands' results are affected by fluctuations in the U.S./Canadian currency exchange rates as we generate revenue from oil sales based on a U.S. dollar WTI benchmark price, while operating costs and capital costs are denominated primarily in Canadian dollars. Over the last two years, the U.S. to Canadian dollar exchange rate has experienced significant volatility, ranging from a low of \$0.77 US/Cdn in to a high of \$1.03 US/Cdn. Our revenue exposure is partially offset by U.S. dollar obligations, such as interest costs on U.S. dollar denominated debt and our share of Syncrude's U.S. dollar vendor payments. In addition, when our U.S. dollar denominated Senior Notes mature, we have exposure to U.S. dollar exchange rates on the principal repayment of the Senior Notes. This repayment of U.S. dollar debt acts as a partial financial hedge against the U.S. dollar denominated revenues.

To the extent that Canadian Oil Sands issues debt securities denominated in foreign currencies, such an investment may entail significant risks that are not associated with a similar investment in a security denominated in Canadian dollars. Such risks include, without limitation, the possibility of significant changes in rates of exchange between the Canadian dollar and the various foreign currencies and the possibility of the imposition of currency controls by either the Canadian or foreign governments. These risks will vary depending upon the currency or currencies involved. At December 31, 2009, Canadian Oil Sands only had U.S. dollar denominated debt and Canadian dollar denominated unutilized bank credit facilities.

Interest Rate Risk

Canadian Oil Sands' results, and in particular our net interest expense, are impacted by U.S. and Canadian interest rate changes as our credit facilities and investments are exposed to floating interest rates. In addition, we are exposed to interest rate risk upon the refinancing of maturing long term debt at prevailing interest rates. As at December 31, 2009, no amounts were drawn on our credit facilities and our next U.S. Senior Note maturity is not until August 2013. The Trust also did not have a significant exposure to interest rate risk in 2009 based on the amount of floating rate debt or instruments outstanding. However, during 2009 we refinanced about \$500 million in maturing debt with an average interest rate of 5.1 percent by issuing US\$500 million in Senior Notes with an interest rate of 7.75 percent per annum.

Liquidity Risk

Liquidity risk is the risk that Canadian Oil Sands will not be able to meet its financial obligations as they fall due.

In addition, we are exposed to liquidity risk to the extent we have financing requirements related to significant capital or operating commitments. During 2008, an economic crisis emerged globally as U.S. and foreign debt and equity markets fell and many developed and developing countries including the U.S. and Canada headed into a recession, all of which impacted financial markets within Canada. Significant declines in liquidity and higher borrowing costs emerged, particularly in the latter half of

2008. Economic, credit and capital market conditions began to ease in the second quarter of 2009 and continued to strengthen to the end of the year. In May 2009, Canadian Oil Sands was able to refinance about \$500 million in maturing debt with US\$500 million in Senior Notes significantly improving its liquidity position. The next debt maturity is in August, 2013. Canadian Oil Sands also has \$840 million of unused credit facilities as at December 31, 2009 available to meet operating and capital requirements. Despite our current liquidity position, an inability to access the credit markets combined with a sustained downturn in crude oil prices may seriously impact the Trust's liquidity.

Credit Risk

Canadian Oil Sands is exposed to credit risk primarily through its trade accounts receivable balances with customers and with financial counterparties with whom the Trust has invested its cash and purchased term deposits from and with its insurance providers in the event of an outstanding claim. The recent economic downturn and credit market crisis have heightened Canadian Oil Sands' credit risk exposure with these counterparties. The financial condition of some of our U.S. based refinery customers has come under pressure during 2009, reflecting low refinery margins during the economic downturn. If these conditions persist or worsen, Canadian Oil Sands may not be able to collect all of its accounts receivable.

Canadian Oil Sands is subject to environmental legislation in all jurisdictions in which it operates and any changes in such legislation could negatively affect its results of operations

Each of the Syncrude Participants is liable for its share of ongoing environmental obligations and for the ultimate reclamation of the Syncrude Project site upon abandonment. While the Ownership and Management Agreement that created the Syncrude Joint Venture is very clear that all obligations are several and not joint, actual legislation may specifically impose joint and several liability on every owner, operator or lessee. Our share of ongoing environmental obligations have been, and are expected to continue to be, funded out of the revenues from our sales of SCO. As the Syncrude operations involve use of water and the emission of sulphur dioxide and greenhouse gases such as carbon dioxide (CO₂), legislation which significantly restricts or penalizes current production levels would have a material impact in our operations. While Syncrude is focused on reducing these emissions on a per barrel basis, no assurance can be given that existing or future environmental regulations (see pages 26 to 31 of this AIF) 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.

SCL announced in 2003 that it intended to both design and install a sulphur dioxide scrubbing system, referred to as the SER project, which is designed to reduce the amount of sulphur dioxide produced on both a per barrel and absolute basis. These reductions would be in addition to reductions in sulphur dioxide emissions from the sulphur scrubbing technology that is part of the Stage 3 facilities. At the present time, there is no requirement under the AEPEA or the terms of SCL's current environmental approvals to install any additional or replacement sulphur dioxide scrubbing. However, there can be no assurance that requirements for installation of a system different from the one currently planned by Syncrude will not come into existence in the future or that any system which may be selected in anticipation of, or in response to, any such requirements will effectively lower sulphur dioxide emissions to desired or required levels. Syncrude's current cost estimate for the SER project is \$1.6 billion. There can be no assurance that this cost estimate will not be exceeded.

There are various consultation processes underway by the Province of Alberta with regard to water usage in the oil and gas industry and the oil sands sector in particular. As no final conclusions or recommendations have been issued as a result of these processes, we cannot fully assess the impact of any

such proposals on our operations. However, Syncrude has operated below the license limits with respect to its use of water from the Athabasca River and has historically co-operated with the Alberta government as part of these processes by voluntarily reducing the amount of water that it removes from the Athabasca River during periods of low river flow. Recent announcements by environmental groups targeting the end to any removal of water from the Athabasca River during such low flow periods is not operationally possible and as such Syncrude and certain other oil sands operators have retained their grandfathered legal rights to remove water in accordance with the terms of their respective water licenses. It is not clear how the Alberta government may react in response to this environmental lobbying. As the Syncrude operations involve the use of water, any proposed legislation which significantly restricts or penalizes current production levels may have a material negative impact on our operations.

Syncrude produces a significant volume of fine tailings, which are presently held in settling basins. Syncrude's closure and reclamation plan and thus its AEUB approval depends on the use of consolidated tails ("CT") technology to manage tailings fluids and solids associated with bitumen production. As this is developmental technology, there is an inherent risk that the CT technologies used by Syncrude and most other oil sands producers may not be as effective as desired or perform as required in order to meet the approved closure and reclamation plan. Current initiatives undertaken by Syncrude include the development of the Base Mine Lake demonstration project, implementation of CT at Aurora North, implementation of mature fine tailings centrifugation technology at Mildred Lake, and other sustaining projects such as in-pit containment construction and mine facilities relocations within the mining/tailings footprints. The monitoring and reporting requirements under the ERCB's Directive 074 will also mean greater regulatory scrutiny over tailings management now and into the future. Directive 074 will allow the ERCB 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. It is noteworthy that Directive 074 is performance-based, and gives companies the flexibility to choose the technology they prefer to achieve the performance criteria. While Syncrude continues to develop CT technologies and investigate alternative tailings management technologies, there is a risk of increased costs to develop and implement various measures and the potential for tailings specific regulatory approval conditions to be attached to future regulatory applications and/or renewals.

The benefits and expected results from the MSA may not materialize

The MSA may be cancelled by either SCL or Imperial Oil on 24 months notice. In addition, as with any service arrangement, especially one involving complex operations such as exists at Syncrude, the expected benefits and improvements in reliability, safety and energy efficiency may not be realized. This could have a negative impact not only on the operating costs as service fees continue to be payable but also on overall performance of Syncrude operations and results.

Pipeline transportation and delivery infrastructure issues may cause an adverse impact on Canadian Oil Sands' results

All of our Syncrude production is transported through the Alberta Oil Sands Pipeline Limited ("AOSPL") system, which delivers to Edmonton, Alberta. Disruptions in service on this system could adversely affect our crude oil sales and cash from operating activities. The AOSPL system feeds into various other crude oil pipelines that are used to deliver our SCO product to refinery customers within Canada and the United States. Interruptions in the availability of these pipeline systems may limit the ability to deliver production volumes and could adversely impact sales volumes or the prices received for our product. These interruptions may be caused by the inability of the pipeline to operate, or they can be related to capacity constraints as the supply of feedstock into the system exceeds the infrastructure

capacity. While we believe long term take-away capacity will exceed production growth, there can be no certainty that investments will be made to provide this capacity. There is also no certainty that short term operational constraints on the pipeline system, arising from pipeline interruption and/or increased supply of crude oil, will not occur. In addition, planned or unplanned shutdowns or closures of our refinery customers may limit our ability to deliver our SCO with negative implications on sales and cash from operating activities.

We limit exposure to these risks by allocating deliveries to multiple customers via multiple pipelines. We also maintain knowledge of the infrastructure operational issues and influence expansion proposals through industry organizations in order to assess and respond to delivery risks.

Deteriorating conditions in the credit markets may adversely affect business

The ability to make scheduled payments on or to refinance debt obligations depends on the financial condition and operating performance of the Trust, which is subject to prevailing economic and competitive conditions and to certain financial, business and other factors beyond its control. During parts of 2008 and 2009, credit markets experienced adverse conditions. Continuing volatility in the credit markets may increase costs associated with debt instruments due to increased spreads over relevant interest rate benchmarks, or affect the Trust's, or third parties that the Trust seeks to do business with, ability to access those markets. The Trust may be unable to maintain a level of cash from operating activities sufficient to permit it to pay the principal, premium, if any, and interest on its indebtedness. In addition, there has been substantial 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 Trust operates and its business, including future operating and financial results.

Capital projects may experience cost overruns

Inherent in the mining of oil sands and production of synthetic crude oil is a need to make substantial capital expenditures. Inflationary pressures in the mining and oil and gas industry over the last few years, and the Fort McMurray area specifically, are resulting in higher costs. This cost pressure impacts capital expenditures associated with expansion projects and sustaining capital expenditures. Further, there is a risk that maintenance at Syncrude will be required more often than currently planned or that significant capital projects could arise that were not previously anticipated.

There is a risk associated with providing cost estimates for major projects. Canadian Oil Sands often provides estimates for Syncrude's major projects, which encompass the conceptual stage through to final scope design, including detailed engineering cost estimates. However, these projects typically evolve over time and updates for significant timing and cost estimate changes are often required during project construction. At each stage of these major projects, cost estimates involve uncertainties. Accordingly, actual costs can vary from these estimates and these differences can be significant.

Canadian Oil Sands may be impacted by risks inherent in the execution of and/or integration of a major project into existing operations

There are certain risks associated with the execution of Syncrude's major projects, including without limitation, the SER project, mine train moves, Stage 3 debottleneck, and the development of Aurora South. These risks include: our ability to obtain the necessary environmental and other regulatory approvals; 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. The commissioning and integration of new facilities and the execution of major projects within an operating plant present issues that require risk management. There are also risks associated with project cost estimates and scheduling provided by us. Some cost estimates are provided at the conceptual stage of projects and prior to completion of the final design scope and detailed engineering is needed to reduce the margin of error. Accordingly, actual costs can vary from estimates and these differences can be material.

The petroleum industry and energy sector are highly competitive

The petroleum industry is highly competitive in all aspects, including the distribution and marketing of petroleum products. Substantially all of our production is currently consumed by refineries in Canada and the U.S. for further processing into refined products. We compete for these markets against world-wide sources of crude oil and these refineries compete against other refineries and imported refined products. The price received for our SCO or our ability to deliver our SCO may be limited with negative implications on revenues and cash from operating activities if global supply of crude oil or refined products increases, North American demand for crude oil or products decreases, or if planned or unplanned shutdowns of refineries, generally or of refineries that process Canadian Oil Sands' SCO occurs.

The Syncrude Project competes with other producers of crude oil, some of whom have considerably lower operating costs. Also, an increasing supply of synthetic crude oil came on stream in recent years and is expected to increase further in 2010 and beyond. There is no guarantee there will be sufficient demand to absorb the increased supply without eroding the selling price, which could result in a deterioration of the price differential that Canadian Oil Sands may realize compared to benchmark crude oils such as WTI. Also, prices may decline to such an extent that our share of Syncrude's production is no longer economically viable. In response to growing volumes of synthetic crude oil and Syncrude's own expanding volumes following the Stage 3 completion, we have had to expand our markets to achieve the premium price we expect for our quality product. With the increased supply of synthetic crude oil, we may obtain a lower net realized selling price and may need to sell our product to refineries further from the source of production. This will increase transportation costs of the product and accordingly, the net realized selling price for our product may be negatively impacted. The petroleum industry also competes with other industries in supplying energy, fuel and related products to consumers.

In addition, the competition for skilled labour in the Wood Buffalo Region has put pressure on recruiting, training and retaining the necessary personnel to operate Syncrude's facilities effectively and efficiently. To help provide an adequate supply of trained labour in its operations in the future, SCL supports local Aboriginal communities, colleges, universities, trade schools and various levels of government to help people develop the skills and knowledge they need to enter the workforce. SCL is one of the largest employers of Aboriginal people in Canada. In addition, SCL recruits extensively across Canada and, to a lesser extent, around the world to bring new workers to the region. The execution by SCL of the MSA with Imperial Oil should also enable SCL to access people and expertise from Imperial Oil and its affiliates, including ExxonMobil. However, there is no assurance that the net impact of any of these actions will offset the potential loss of personnel due to an aging workforce population and the competition for skilled workers.

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

The impact of the recent economic downturn on these competitive conditions is not yet fully known. However, it is expected that the highly competitive environment in the Wood Buffalo Region may continue to be an ongoing issue in the years to come.

Marketing and transportation of synthetic crude oil

A significant volume of production from the Syncrude Project is sold to customers beyond Edmonton, Alberta in Eastern Canada and the U.S. As such, pipeline access and capacity, transportation tariffs and price differentials with competing products are all factors which can affect sales volumes for SCO as well as the realized selling price or netbacks received by Canadian Oil Sands for our share of production. As SCO is consumed at delivery points further from Edmonton, Alberta to accommodate the larger amount of synthetic and heavy crude oil being produced, the realized selling price net of transportation costs is typically negatively impacted. There can be no assurance that the selling price realized by Canadian Oil Sands will not be negatively impacted in a significant manner.

Despite the recent deferral or cancellation of several oil sands projects due the economic downturn, over the next five years, planned oil sands and heavy oil projects may still result in as much as 250,000 bpd of additional synthetic crude oil entering the market, some of which may be used for diluent. There can be no assurance that existing transportation systems will be sufficient to handle this additional production or that new transportation systems will be built in time or at all.

Canadian Oil Sands may not have access to sufficient capital to fund all required capital expenditures

Canadian Oil Sands and the other Syncrude Participants plan to continue to make substantial capital expenditures for the mining of oil sands and production of SCO. Canadian Oil Sands has credit facilities available to assist it in funding capital expenditures in excess of cash from operating activities. However, it is expected that access to public debt and equity markets may be required from time to time. As noted in “Liquidity Risk”, there can be no assurance that such public debt and equity markets would be available to Canadian Oil Sands.

Canadian Oil Sands and Syncrude may face potential unknown liabilities

There may be unknown liabilities assumed by the Trust through its direct and indirect interests in Syncrude and its other subsidiaries (including Canadian Arctic Gas Ltd.), including those associated with prior drilling in Northern Canada as well as environmental issues or tax issues. The discovery of any material unknown liabilities could have an adverse affect on the financial condition and results of operations of Canadian Oil Sands and, as a result, the amount of cash available for distribution to Unitholders.

U.S. climate change legislation could negatively affect markets for crude and synthetic crude oil

Environmental legislation in importing jurisdictions in the United States regulating carbon fuel standards could result in increased costs and/or reduced revenue to the Trust. For example, California, the United States federal government and other U.S. states have passed legislation which, in some circumstances, considers the lifecycle greenhouse gas emissions of purchased fuel and which may negatively affect marketing of Syncrude products, or require the purchase of emissions credits in order to affect sales in such jurisdictions. President Obama also has indicated that climate efforts will be a priority for his new administration and in the past he has supported “cap-and-trade” policies that could also result in increased costs and/or reduced revenue to the Trust. In particular, two bills proposing cap-and-trade regimes have been introduced into the U.S. Senate. These bills also contemplate possible tariffs on goods produced in countries without comparable carbon legislation.

The implementation of federal climate change legislation could increase Syncrude's operating costs, capital costs and future development plans

The Kyoto Protocol came into effect on February 16, 2005, the federal “Turning the Corner” Regulatory Framework for Air Emissions was proposed on April 27, 2007 and an enhanced version was released on March 10, 2008. The proposed Regulatory Framework provided details of proposed regulations which will require emissions intensity reductions, including an additional “clean fuel standard” emissions intensity requirement specific to upgraders and in situ oil sands operations commencing operation between 2004 and 2012. Also specific to upgraders and in situ oil sands operations commencing operations after 2012 is the requirement to meet a carbon capture and sequestration technology emissions intensity standard.

However, the Federal Government has subsequently indicated that it now instead expects to implement a “cap-and-trade” GHG reduction framework similar to legislation proposed in the United States. On December 19, 2009, Canada signed the “Copenhagen Accord,” the outcome of the 2009 United Nations Climate Change Conference that committed signatory countries to take individual GHG reduction steps. On January 31, 2010, Canada registered its commitment under the Copenhagen Accord to reduce its GHG emissions by 17 percent from 2005 levels by 2020, adopting the same target as the United States. The extent and timing of regulations are unclear.

Numerous uncertainties remain regarding the timing and effects of federal climate change regulation reflecting Canada’s commitment under the Copenhagen Accord, and reflecting the federal government’s comments about a cap-and-trade regime. As well, harmonization with the Alberta Specified Gas Emitters Regulation makes it difficult to ascertain the cost estimate of climate change legislation compliance, including when third party costs factor their way into Syncrude's supply chain of goods and services. There is no assurance that the cost impact to Canadian Oil Sands of the federal climate change regulation will not be significant, which could result in a material adverse effect on our financial condition or our results or operations and in turn negatively impact the Trust’s financial results or our results of operations.

Canadian Oil Sands will not be economically viable if reserves from the Syncrude Project cannot be economically produced and marketed

Currently, our investment in the Syncrude Project is our only producing asset. Market fluctuations of crude oil prices or cost increases may render uneconomic the mining, extraction and upgrading of oil sands reserves containing relatively lower grades of bitumen. Moreover, short term factors relating to the oil sands reserves, such as the need for orderly development of ore bodies or the processing of new or different

grades of ore, may impair the profitability of a mine and upgrading facility in any particular accounting period.

Canadian Oil Sands will not be economically viable if reserves from the Syncrude Project cannot be economically produced and marketed.

Canadian Oil Sands could experience an inability to meet debt service amounts

The ability of Canadian Oil Sands to meet our debt service obligations will depend on the future operating performance and financial results of Syncrude, which will be primarily subject to factors beyond our control, including, among others, requirements to fund our pro rata share of operating costs and capital expenditures which may exceed revenue received from the sale of our pro rata share of SCO. If we are unable to obtain sufficient cash to service our debt, we may be required to refinance all or a portion of our debt, obtain additional financing or sell certain of our assets. There can be no assurance that any such refinancing would be possible or that any additional financing could be obtained on acceptable terms, nor can there be any assurance as to the timing of any such asset sales or the proceeds which could be realized therefrom.

An increase in natural gas prices or shortages in the supply of natural gas could have an adverse effect on Canadian Oil Sands

The financial condition, operating results and future growth of Canadian Oil Sands is substantially affected by the price and availability of natural gas. Natural gas is used in material quantities as a feed stock in the Syncrude Project primarily for the production of hydrogen and to a lesser extent as a fuel for the generation of heat, steam and power. The price of natural gas is subject to large variations based on supply and demand for natural gas in North America. SCL and Canadian Oil Sands have no control over such prices. A prolonged period of high natural gas prices or a material increase in natural gas prices could have an adverse effect on the profitability and cash from operating activities of Canadian Oil Sands. Additionally, in Alberta, there could be a restriction on the amount of natural gas available in the future, which would impact production and the operating costs for Canadian Oil Sands.

Purchased natural gas is a significant component of the bitumen production and upgrading processes. Increases in natural gas prices therefore introduce the risk of significantly higher operating costs. Similar to crude oil prices, natural gas prices also have experienced significant movements over the last three years, from a high of approximately AECO \$11.24 per GJ to a low of approximately AECO \$1.86 per GJ. To the extent crude oil prices and natural gas prices move together, the risk of natural gas price increases is mitigated as the Trust is significantly more levered to oil prices. The main risk involves a de-linking of crude oil and natural gas price movements, such that gas prices increase relative to crude oil prices. The Trust has previously used hedge positions to mitigate natural gas price risk and will continue to assess the strategy as a means to manage short term operating costs. No natural gas hedges were utilized in 2009, 2008 or 2007, and as at March 22, 2010, we have no natural gas hedges in place.

The Syncrude Project's operations are subject to extensive government regulation; the costs of compliance with additional government regulation and the cancellation of government licenses could have an adverse effect on Canadian Oil Sands

The Syncrude Project's mining, extraction, upgrading and utilities activities are subject to extensive Canadian federal, provincial and local laws and regulations governing exploration, development, transportation, production, exports, labour standards, occupational health, waste disposal, protection and redemption of the environment, safety, hazardous materials, toxic substances and other matters. We believe that SCL is in substantial compliance with all applicable laws and regulations. Amendments to current laws and regulations governing operations and activities of mining and refining companies and the more stringent implementation thereof are actively considered from time to time and the implementation thereof could have a material adverse impact on the Syncrude Project. There can be no assurance that the various government licenses granted to the Syncrude Project will not be cancelled or will be renewed upon expiry or that income tax laws and government incentive programs relating to the Syncrude Project, and the mining and oil and gas industries generally, will not be changed in a manner which may adversely affect Canadian Oil Sands. The Syncrude Project facility approval granted by the AEUB expires on December 31, 2035 unless extended.

Environmental legislation in importing jurisdictions in the United States regulating carbon fuel standards could result in increased costs and/or reduced revenue to the Trust. For example, California, the United States federal government and other U.S. states have passed legislation which, in some circumstances, considers the lifecycle greenhouse gas emissions of purchased fuel. This could negatively affect marketing of Syncrude products, or require the purchase of emissions credits in order to affect sales in such jurisdictions.

Certain aspects relating to oil reserves data and future net revenue estimates are uncertain

The reserves, contingent resources and prospective resources figures contained or incorporated by reference into this AIF are estimates and no assurance can be given that the indicated level of recovery of SCO will be realized. Reserves, contingent resources and prospective resources may require revision based on actual production experience, further core hole drilling and several other factors. Such figures have been determined based upon the term of the operating permit, plant processing capacity and estimates of yield and recovery factors as well as estimates of bitumen in place. All such estimates are to some degree uncertain, and classifications of reserves, contingent resources and prospective resources figures are only attempts to define the degree of uncertainty involved. For these reasons, estimates of the economically recoverable reserves or resources, prepared by different engineers or by the same engineers at different times, may vary. Canadian Oil Sands' actual production, revenues and development and operating expenditures with respect to its reserves, contingent resources and prospective resources figures may vary from such estimates. As well, the estimates of future net revenues are dependent on estimates of future oil prices, capital and operating costs. Variances to actual costs may be significant. As such, these estimates are subject to variations due to changes in the economic environment at the time and variances in future budgets and operating plans.

The estimates of reserves, contingent resources and prospective resources included in the reserves and resources data are calculated in accordance with Canadian practices and may not be directly comparable to practices in other jurisdictions. In addition, the procedures used to estimate reserves from the Syncrude Project are not directly comparable to the procedures used to estimate conventional reserves.

Certain decisions regarding the operation of the Syncrude Project require unanimous agreement among the other Syncrude Participants

The Syncrude Project is a joint venture currently owned by seven Syncrude Participants. Each Syncrude Participant is entitled to one vote. Operating decisions and those relating to debottlenecking matters require a 51 percent majority with at least three Syncrude Participants' approving while major growth decisions outside of the original scope of the operations as well as producing multiple products rather than a single product require unanimous approval. Canadian Oil Sands, through the Corporation, has a representative who chairs Syncrude's Management Committee, which is a committee of the Syncrude Participants that determines the oversight of the Syncrude Joint Venture. Future plans of the Syncrude Project, including proceeding with Stage 3 debottlenecking and development of Aurora South, will depend on such agreement and may depend on the financial strength and views of the other Syncrude Participants at the time such decisions are made.

Risk Factors Relating to the Conversion from a Trust to a Corporation and the Ownership of Common Shares

If the Trust converts to a corporate structure as outlined on pages 9 and 10 of this AIF, certain risk factors will exist in relation to the activities of New COSL and its affiliates and the ownership of common shares of New COSL following the effective date of the Plan of Arrangement:

- the financial condition, operating results and future growth of New COSL will be substantially dependent on the prevailing and expected prices of oil and any substantial and extended decline in the price of oil will have an adverse effect on the revenues, profitability and cash from operating activities of New COSL;
- there are a number of risks particular to the Syncrude Project operations that could have a material adverse impact on New COSL and as the Syncrude Project will be New COSL's only material producing asset, any major incident, operational or otherwise, involving Syncrude's operations or the pipelines which transport Canadian Oil Sands' product could result in a substantial or total reduction in sales of Canadian Oil Sands' product for a prolonged time frame, which would have a material impact on New COSL's ability to generate cash from operating activities and therefore negatively impact New COSL's operating and financial requirements and performance in the interim until operations are resumed;
- the Syncrude Project's operations are subject to extensive government regulation governing development, transportation, production, exports, labour standards, carbon emissions, occupational health, protection and reclamation of the environment, safety, hazardous materials, toxic substances and related matters; the costs of compliance with additional regulation and the cancellation of the various government licenses granted to the Syncrude Project could have a material adverse effect on New COSL;
- the uncertainty of future dividend payments by New COSL and the level thereof as New COSL's dividend strategy and the funds available for the payment of dividends from time to time will be dependent upon, among other things, Syncrude's operational performance, Canadian Oil Sands' operating and capital obligations, net income, cash from operating activities, net debt levels, Canadian dollar crude oil prices, access to capital markets and timing and level of income tax payments, as well as the satisfaction of solvency tests

imposed by the *Business Corporations Act* (Alberta) on corporations for the declaration and payment of dividends;

- the level of New COSL's indebtedness from time to time could impair New COSL's ability to obtain additional financing on a timely basis;
- New COSL may make future acquisitions or may enter into financings or other transactions involving the issuance of securities of New COSL which may be dilutive; and
- the inability of New COSL to manage growth effectively could have a material adverse impact on its business, operations and prospects.

Risks Relating to the Trust Structure or Units

Distributions are variable

Distribution to Unitholders are a function of numerous factors including: the Trust's financial performance; debt covenants and obligations; working capital requirements; future sustaining capital expenditures and future expansion capital expenditure requirements for the purchase of property, plant and equipment; current and potential future environmental liabilities; tax obligations; the impact of interest rates and/or foreign exchange rates; the growth of the general economy; the price of crude oil and natural gas; and number of Units issued and outstanding. Cash distributions may be increased, reduced or suspended or eliminated entirely depending on Canadian Oil Sands' operations and the performance of its assets. The market value of Units may deteriorate if the Trust is unable to meet cash distribution expectations in the future and that deterioration may be material. It is expected that following conversion to a corporate structure dividends will continue to be variable. See pages 9 and 10 of this AIF for more information.

Canadian Oil Sands cannot provide unequivocal assurance that it is not a passive foreign investment corporation for U.S. tax purposes

While Canadian Oil Sands has obtained independent advice that the better view is that it is not a passive foreign investment corporation for U.S. tax purposes, we cannot provide unequivocal assurance that U.S. tax regulators will not take a different view. The Corporation, as the Trust's operating subsidiary, has employees that are actively engaged in managing the Trust's investment in Syncrude and also market Canadian Oil Sands' share of SCO production. Post-conversion, New COSL will continue to have these activities. However, if U.S. authorities view this activity as "passive", then Unitholders residing in the U.S. may be subject to additional taxes and filings as a result of such determination.

Risks associated with the taxation of the Trust and Canadian Oil Sands Limited could negatively affect the value of the Units

There can be no assurance that the Trust will not cease to qualify as a "mutual fund trust" under the *Income Tax Act* (Canada) (the "Tax Act") or that it will not become a SIFT Trust (as hereinafter defined) prior to January 1, 2011.

For example, if the Trust ceases to qualify as a "mutual fund trust" under the Tax Act, certain Canadian income tax considerations would be materially and adversely different in certain respects.

To qualify as a "mutual fund trust" for purposes of the Tax Act, the Trust must continuously satisfy certain requirements as to the nature of its undertakings (primarily that it must restrict its activities to the

investment of funds), its ability to distribute Units to the public, the dispersal of ownership of its Units and the requirement that, unless it meets certain exceptions, it must not be reasonable to consider that it was established or is maintained primarily for the benefit of Non-Canadian Holders (as defined herein).

As noted above, the Tax Act provides that a trust will not be considered to be a "mutual fund trust" for purposes of the Tax Act if it is established or is maintained primarily for the benefit of non-residents of Canada. However, this disqualification rule does not apply if all or substantially all of the trust's property is property other than "taxable Canadian property" as defined in the Tax Act. Although no assurances can be provided, all or substantially all of the assets of the Trust should be property other than "taxable Canadian property" as defined in the Tax Act.

If the Trust were to cease to qualify as a "mutual fund trust", Units held by Unitholders who are not resident in Canada for the purposes of the Tax Act ("Non-Canadian Holders") would become "taxable Canadian property" under the Tax Act. These Non-Canadian Holders would be subject to Canadian income tax on any gains realized on a disposition of the Units held by them unless they were exempt under an income tax convention, and Non-Canadian Holders may be subject to certain notification and withholding requirements on a disposition of their Units. In addition, the Trust would be taxed on certain types of income distributed to Unitholders (apart from under the specified investment flow-through legislation discussed below). Payment of this tax may have adverse consequences for some Unitholders, particularly Non-Canadian Holders and residents of Canada that are otherwise exempt from Canadian income tax.

As Canadian Oil Sands plans to convert to a corporate structure on or about December 31, 2010, the impact of the SIFT rules and continuing as a mutual fund trust are limited. However, other tax issues exist post-2010. See pages 9 and 10 of this AIF.

In connection with any such reorganization, the current distribution policies of the Trust would be replaced by the dividend policy of the successor corporation. The reorganization would result in the conversion of the Trust into an entity that would be subject to additional Canadian federal and provincial income tax.

Any such reorganization may occur prior to January 1, 2011 and may have an adverse impact on the market price of the Units.

Units have certain risks

The Units should not be viewed as shares of a corporation. The Units represent a fractional interest in the Trust. Unitholders do not have the statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring "oppression" or "derivative" actions.

The Units are not "deposits" within the meaning of the *Canada Deposit Insurance Corporation Act* (Canada) and are not insured under the provisions of that act or any other legislation. Furthermore, the Trust is not a trust company and, accordingly, is not registered under any trust and loan company legislation as it does not carry on or intend to carry on the business of a trust company.

The Trust is not a legally recognized entity within the relevant definitions of the *Bankruptcy and Insolvency Act* (Canada), the *Companies' Creditors Arrangement Act* (Canada) and, in some cases, the *Winding Up and Restructuring Act* (Canada). As a result, in the event a restructuring of the Trust were necessary, the Trust would not be able to access the remedies available thereunder. In the event of a restructuring, the position of Unitholders may be different than that of the shareholders of a corporation.

If the Trust does not constitute a "qualified foreign corporation" for United States federal income tax purposes, individual U.S. Holders (as defined below) may be taxed at a higher rate on distributions

Management expects that distributions it makes to non-corporate U.S. Holders (including individual U.S. Holders) that are treated as dividends for United States federal income tax purposes will be treated as qualified dividend income eligible for the reduced maximum rate to individuals of 15 percent (5 percent for individuals in lower tax brackets). However, if the Trust does not constitute a "qualified foreign corporation" for United States federal income tax purposes, and as a result such dividends to non-corporate U.S. Holders do not qualify for this reduced maximum rate, such holders will be subject to tax on such dividends at ordinary income rates (currently at a maximum rate of 35 percent). In addition, under current law, the preferential tax rate for qualified dividend income will not be available for taxable years beginning after December 31, 2010.

For the purposes of this AIF, the term "U.S. Holder" means a beneficial owner of Trust Units that for United States federal income tax purposes is:

- (a) an individual citizen or resident of the United States;
- (b) a corporation or other entity treated as a corporation for federal income tax purposes, created or organized in or under the laws of the United States or any State or the District of Columbia; or
- (c) an estate that is subject to United States federal income tax on its income regardless of its source.

The Trust's debt service obligations may limit the amount of cash available for distributions

The Trust and its affiliates may, from time to time, finance a significant portion of their growth (either from acquisitions or capital expenditure additions) and operations through debt. Amounts paid in respect of interest and principal on debt incurred by Canadian Oil Sands and its affiliates may impair Canadian Oil Sands' ability to satisfy its obligations under its debt instruments. Variations in interest rates and scheduled principal repayments could result in significant changes in the amount required to be applied to service debt. This may result in lower levels of cash available for distribution by the Trust. Ultimately, subordination agreements or other debt obligations, including the terms of the Credit Facilities could preclude distributions altogether.

The price of Units may experience volatility

The price of Units may be volatile. Some of the factors that could affect the price of the Units are quarterly increases or decreases in revenues or cash from operating activities, production levels, operating costs, changes in cash distributions made by the Trust, changes in revenues or other estimates by the investment community, the ability of the Trust to implement its strategy and speculation in the press or investment community about the Trust's financial condition or results of operations. General market conditions and Canadian, United States or international economic factors and political events unrelated to the performance of the Trust may also affect the price of Units. For these reasons, investors should not rely on past trends in the price of Units to predict the future price of Units or the Trust's financial results.

Canadian withholding tax may exceed allowable United States foreign tax credits and reduce effective yield to United States investors

Withholding of Canadian tax is imposed at a 25 percent rate (reduced to 15 percent for recipients that are residents of the United States eligible for benefits under the Canada-United States Tax Convention) both on cash and non-cash distributions by the Trust to persons that are not Canadian residents. However, as certain non-cash distributions by the Trust generally will not be included in income for United States federal income tax purposes, such Canadian withholding tax may exceed a U.S. Holder's allowable foreign tax credit for the taxable year of the distribution, potentially resulting in a reduced after-tax cash yield to United States investors for the year of such distribution.

Unitholders may have liability beyond their investment in limited circumstances

Canadian Oil Sands' Amended and Restated Trust Indenture (the "Trust Indenture") provides that no Unitholder will be subject to any liability in connection with the Trust or its obligations and affairs or for any act or omission of the Trustee, provided that in the event that a court determines Unitholders are subject to any such liabilities, the liabilities will be enforceable only against, and will be satisfied only out of, the Trust's assets. In addition, the Trust Indenture states that no Unitholder is liable to indemnify the Trustee or any other person for any liabilities incurred by the Trustee, including with respect to taxes payable by the Trust or the Trustee, and all such liabilities will be enforced only against, and will be satisfied only out of, the Trust's assets. The Trust Indenture also provides that all contracts entered into by or on behalf of the Trust should generally contain a provision or be subject to an acknowledgement to the effect that the obligations of the Trust thereunder will not be binding upon Unitholders personally and that such provisions and acknowledgement shall be held in trust and enforced by the Trustee for the benefit of the Unitholders.

Effective July 1, 2004, the Alberta government implemented section 2(1) of the *Income Trust Liability Act*, which specifically provides that beneficiaries, as beneficiaries, are not liable for any act, default, obligation or liability of the trustee of any Alberta income trust. The Trust is an Alberta income trust. However, a Unitholder who has been actively involved in the direction or management of the Trust beyond voting Units at Unitholder meetings may incur liability beyond their investment.

In conducting its affairs, Canadian Oil Sands has assumed certain existing contractual obligations and may have to do so in the future. Although we will use reasonable efforts to have any contractual obligations modified so as not to have such obligations binding upon any of the Unitholders personally, we may not obtain such modification in all cases. To the extent that any claims under such contracts are not satisfied by Canadian Oil Sands, there is a risk that a Unitholder may be held personally liable for obligations of Canadian Oil Sands where the liability is not expressly disavowed, as described above.

RESERVES DATA AND OTHER INFORMATION

In 2003, Canadian Securities Administrators implemented new standards of disclosure for reporting issuers engaged in upstream oil and gas activities. National Instrument 51-101 ("NI 51-101") establishes a regime of continuous disclosure for oil and gas companies and includes specific reporting requirements. NI 51-101 was further amended on December 31, 2007. Canadian Oil Sands applied for and received an order from the various securities commissions in Canada allowing Canadian Oil Sands to report, on a consolidated basis, the reserves of the Trust's subsidiaries with such reporting being made only at the Trust level and to footnote the percent of interest that the Corporation holds of such aggregate amount. The Trust's year-end reserves report summarized in this AIF is compliant with NI 51-101.

In conjunction with NI 51-101, the Standing Committee on Reserves Evaluation of the Calgary Chapter of the Society of Petroleum Evaluation Engineers and the Standing Committee on Reserves Definitions of the Canadian Institute of Mining, Metallurgy and Petroleum developed the Canadian Oil and Gas Evaluation Handbook ("COGEH") to serve as the guidelines for conducting reserves evaluations and reporting the results thereof. Canadian securities regulators require reporting issuers to comply with the COGEH, as amended from time to time.

To assist you in understanding the terminology required by NI 51-101, we are providing the following definitions:

Proved Reserves are those reserves that can be estimated with a high degree of certainty to be recoverable. NI 51-101 further identifies the certainty level for proved reserves as "at least a 90 percent probability that the quantities actually recovered will equal or exceed the estimated proved reserves".

Proved plus Probable Reserves are those additional reserves that are less certain to be recovered than proved reserves. NI 51-101 defines the certainty level as "at least a 50 percent probability that the quantities actually recovered will equal or exceed the sum of the estimated proved plus probable reserves." Therefore, under NI 51-101, the proved plus probable reserves represent a "best estimate" or "expected reserves".

Developed proved reserves correspond to volumes recovered through installed extraction equipment and infrastructure operational at the time of the reserves estimate. Capital projects required to support the existing production capacity levels are generally considered by GLJ and the industry to be sustaining in nature unless they result in material production growth. While sustaining capital may be significant in terms of the absolute level of expenditure required, the need for sustaining capital is not considered by our evaluator to affect the classification of reserves as developed.

Based on an independent engineering evaluation conducted by GLJ Petroleum Consultants Ltd. ("GLJ") effective December 31, 2009 and prepared in accordance with NI 51-101, Canadian Oil Sands had proved plus probable reserves of 1.9 billion barrels. All reserve information in this section is based on Canadian Oil Sands' working interest of 36.74 percent in the Syncrude Joint Venture as at December 31, 2009. Proved developed producing reserves represent 52 percent of proved plus probable reserves. Proved non-producing reserves have not been assigned. Canadian Oil Sands currently produces only one product type, namely SCO.

Our crude oil reserves quantities and future net revenues were determined by GLJ utilizing GLJ's price forecast as of December 31, 2009. The reserves estimates were constrained to areas where Syncrude currently has approvals to mine. The future net revenues shown below are based on the current Alberta oil sands royalty regulations as modified by the agreement reached on November 18, 2008 between the Syncrude Participants and the Alberta government (See "Royalties and Taxes" section of this AIF) and are prior to provisions for currency hedging, interest, debt service charges, general and administrative costs, insurance and mine reclamation costs. It should not be assumed that the estimated discounted future net revenues represent the fair market value of the reserves. The effective date of the reserves estimate and revenue projection in this AIF is December 31, 2009.

The estimates of reserves and projections of production were generally prepared using data to January 18, 2010. The GLJ report preparation date is February 5, 2010 and the report is dated February 22, 2010. Canadian Oil Sands, on behalf of the Trust and its subsidiaries, provided GLJ with a representation letter confirming that complete and correct information has been provided to GLJ.

The reserves quantities and future net revenues set out in this AIF are dependent upon a number of assumptions and estimates. They are also subject to risks and uncertainties regarding crude oil prices, including the realized selling price that Canadian Oil Sands receives relative to Edmonton par and the value of bitumen deemed by the Alberta Bitumen Valuation Methodology, any impact of announced or potential environmental legislation or sanctions that may be imposed and various other factors outlined in this AIF as well as the impact that the timing and costs of developing Aurora South may have. We refer you to the “Risk Factors” section of this AIF for the full discussion of these risks and uncertainties. In addition, the evaluation does not consider the potential impact of Syncrude's research efforts and new technology developments.

Summary of Reserves as at December 31, 2009

Forecast Prices and Costs ⁽¹⁾⁽²⁾⁽³⁾

Reserves Category	Synthetic Crude Oil Reserves		Before Income Taxes				
	Gross million bbls	Net million bbls	Future Net Revenue Discounted (\$ millions) ⁽⁴⁾				
			0%	5%	10%	15%	20%
Proved Developed Producing	962	824	44,332	24,338	15,469	10,920	8,296
Proved Developed Nonproducing	-	-	-	-	-	-	-
Total Proved	962	824	44,332	24,338	15,469	10,920	8,296
Probable	898	778	53,993	13,031	3,535	896	75
Total Proved Plus Probable	1,860	1,602	98,325	37,369	19,004	11,816	8,371

Reserves Category	Synthetic Crude Oil Reserves		After Income Taxes				
	Gross million bbls	Net million bbls	Future Net Revenue Discounted (\$ millions)				
			0%	5%	10%	15%	20%
Proved Developed Producing	962	824	33,845	18,683	11,955	8,503	6,511
Proved Developed Nonproducing	-	-	-	-	-	-	-
Total Proved	962	824	33,845	18,683	11,955	8,503	6,511
Probable	898	778	40,474	9,436	2,263	299	(280)
Total Proved Plus Probable	1,860	1,602	74,319	28,119	14,218	8,802	6,231

Notes:

- (1) Canadian Oil Sands Limited constitutes 100 percent of the net reserves shown.
- (2) Figures may not add correctly due to rounding.
- (3) Based on a light sweet crude oil price at Edmonton, Alberta (see Forecast Prices used in Estimates).
- (4) The before income tax future net revenue discounted at 10 percent on a \$/bbl (net) basis for each category is as follows:

	<u>\$/bbl</u>
Proved developed producing	\$18.77
Proved developed non producing	\$ -
Total proved	\$18.77
Probable	\$ 4.55
Total proved plus probable	\$11.87

Total Future Net Revenue (Undiscounted Forecast Prices and Costs)⁽¹⁾⁽²⁾

(\$ Millions)

Reserves Category	Revenue	Royalties	Operating Costs	Capital Development Costs	Abandonment Costs	Future Net Revenues Before Income Taxes	Income Tax	Future Net Revenues After Income Taxes
Proved Developed Producing	109,978	16,157	36,877	12,611	-	44,332	10,487	33,845
Proved Developed Nonproducing	-	-	-	-	-	-	-	-
Total Proved	109,978	16,157	36,877	12,611	-	44,332	10,487	33,845
Total Probable	138,661	19,666	46,308	18,693	-	53,993	13,520	40,473
Total Proved Plus Probable	248,638	35,824	83,185	31,305	-	98,325	24,006	74,319

Notes:

- 1) Figures may not add correctly due to rounding.
- 2) Mining reclamation costs were not included in these calculations. Future mining reclamation costs for proved reserves are estimated at \$903 million and for proved plus probable reserves at \$1,241 million.

Forecast Prices Used in Estimates

The forecast reference prices as at December 31, 2009 used in preparing Canadian Oil Sands' reserves data are provided in the table below and is the price forecast as of December 31, 2009 of GLJ, the reserves evaluator. The Syncrude plant gate price is expected to correspond to "Light Sweet Crude Oil at Edmonton" plus a premium of \$2.00 per barrel (e.g. \$85.26 per barrel in 2010).

Year	Inflation (%)	Exchange Rate (\$US/\$Cdn)	WTI Crude Oil at Cushing Oklahoma (\$US/bbl)	Light, Sweet Crude Oil at Edmonton (40 API, 0.3% S) (\$Cdn/bbl)	AECO-C Spot Gas (\$/MMBTU)	Bitumen Price at Syncrude Project ⁽¹⁾ (\$Cdn/bbl)
2010	2.0	0.95	80.00	83.26	5.96	61.05
2011	2.0	0.95	83.00	86.42	6.79	60.38
2012	2.0	0.95	86.00	89.58	6.90	59.51
2013	2.0	0.95	89.00	92.74	6.95	58.71
2014	2.0	0.95	92.00	95.90	7.05	60.82
2015	2.0	0.95	93.84	97.84	7.16	62.07
2016	2.0	0.95	95.72	99.81	7.42	63.34
2017	2.0	0.95	97.64	101.83	7.95	64.63
2018	2.0	0.95	99.59	103.88	8.52	65.95
2019	2.0	0.95	101.58	105.98	8.70	67.30
2020+	2.0	0.95	+2.0%/yr	+2.0%/yr	+2.0%/yr	+2.0%/yr

⁽¹⁾ Forecast bitumen prices are used to estimate Crown royalties. Forecast annual bitumen prices at the Syncrude Project are variable but over the life of the project the average price is approximately 64 percent of the Light Sweet Crude Oil at Edmonton price.

In 2009, Canadian Oil Sands received a weighted average price of \$69.37 per barrel (after crude oil purchases and transportation expense) for its SCO.

Reconciliation of Reserves by Principal Product Type Based on Forecast Prices and Costs

The following table sets forth a reconciliation of the changes in our working interest reserve volumes before deducting Alberta Crown royalties as at December 31, 2009 against such reserves as at December 31, 2008 based on the forecast prices and costs assumptions:

	Synthetic Crude Oil		
	Proved (million bbl)	Probable (million bbl)	Proved Plus Probable (million bbl)
At December 31, 2008	976	811	1,787
Technical Revisions	23	87	110
Production	(37)	-	(37)
At December 31, 2009	<u>962</u>	<u>898</u>	<u>1,860</u>

The probable reserves primarily reflect development of Aurora South, as well as improvements to both extraction recovery and upgrading yield. It is assumed that Aurora South will be developed to replace depletion of the North Mine and source the production growth under a Stage 3 debottlenecking program, which takes advantage of unused capacity in the new coker without any change in product quality. The increase in probable reserves primarily reflects the recognition of revisions to the Aurora South mine plan and pit design.

Undeveloped Reserves by Principal Product Type Based on Forecast Prices and Costs

The following table sets forth a summary of our undeveloped working interest SCO reserves that were first attributed in each of the most recent three financial years and, in the aggregate, before that time:

Undeveloped Synthetic Crude Oil Reserves (Million Barrels)

	Proved		Probable	
	*First Attributed	Total at Year-end	*First Attributed	Total at Year-end
Prior	-	-	660	660
2007	-	-	23	678
2008	-	-	-	678
2009	-	-	129	807

* "First Attributed" refers to reserves first attributed at year-end of the corresponding fiscal year.

The probable undeveloped reserves relate solely to the Aurora South mine. The mine has regulatory approvals in place and a relatively high drill density. The timing of development will be driven by upgrader demand and the productive capacity associated with currently developed mine areas. As part of the initial planning and design for the development of Aurora South, Syncrude filed an update to the regulatory approval in December 2009. Syncrude is working towards the start of development within the next five years. The Aurora South mine is classified as probable rather than proved in view of the significance of the associated development capital, the uncertainty that major capital spending will commence within the next three years and the requirement for the approval by the Syncrude Participants.

Future Development Costs

The following table sets forth the future development costs associated with the development of our reserves as set forth in the GLJ report. Development costs are expected to be funded from cash from operating activities, thus the cost of funding is not expected to affect the reserve balances or estimated future net revenues.

	Total Proved Estimated Using Forecast Prices and Costs (\$ millions)	Total Proved Plus Probable Estimated Using Forecast Prices and Costs (\$ millions)
2010	613	662
2011	802	919
2012	1,000	1,256
2013	1,056	1,635
2014	561	1,720
Remainder	8,579	25,113
Total for all years undiscounted	<u>\$ 12,611</u>	<u>\$ 31,305</u>
Total for all years discounted at 10% per year	<u>\$ 5,582</u>	<u>\$ 10,423</u>

Other Oil and Gas Information

Costs Incurred

The following table sets forth costs incurred by Canadian Oil Sands for the year ended December 31, 2009:

Property Acquisition Costs (\$millions)		Exploration Costs (\$ millions)	Development Costs (\$ millions)
<u>Proved Properties</u>	<u>Unproved Properties</u>	<u>(\$ millions)</u>	<u>(\$ millions)</u>
Nil	Nil	Nil	\$409

Abandonment and Reclamation Costs

Canadian Oil Sands has abandonment and reclamation obligations relating to the mines, upgrader and related facilities. Canadian Oil Sands estimates the abandonment liability, net of salvage, for the mines with consideration given to the expected costs to abandon and reclaim the lands and extraction facilities on an undiscounted current cost basis to amount to \$903 million (\$286 million at a 10 percent discount rate) for proved reserves and \$1,241 million (\$345 million at a 10 percent discount rate) for proved plus probable reserves. These estimates are based on prevailing industry conditions, regulatory requirements and past experience.

Our share of the present value of abandonment and reclamation costs that require recognition in our financial statements at December 31, 2009 was approximately \$389 million. We estimate our share of these costs over the next three years to be approximately \$145 million. These liabilities relate to our 36.74 percent working interest at December 31, 2009 in the Syncrude future dismantlement and site restoration costs for the Base, North and Aurora North mines, but exclude Aurora South as no disturbance has yet occurred on that lease. Syncrude's Upgrader and related facilities have indeterminate useful lives. Therefore, the fair values of the related asset retirement obligation cannot be reasonably determined and are not included in the abandonment and reclamation estimates. Also, the timing and amount of the reclamation expenditures, if any, related to Syncrude's sulphur blocks are not determinable at the present time. The asset retirement obligations pertaining to the Upgrader and the sulphur blocks will be recognized in the year in which the settlement amounts and dates can be reasonably estimated. In estimating the future net revenue, GLJ has not included any abandonment and reclamation costs in the GLJ reserve report.

Tax Horizon

During 2007, Bill C-52 (Canada) was enacted which introduces an income tax on trust distributions for certain Canadian public income and royalty trusts starting in 2011. The future net revenue calculations include a provision for income taxes anticipated to be incurred post 2010.

The 36.74 percent working interest in the Syncrude leases is held by the Corporation. Historically, taxable income in the Corporation has been sheltered by a trust royalty payable to the Trust. Therefore, prior to 2011, both the Trust and the Corporation are assumed to be non-taxable as the royalty trust structure effectively transfers the income tax obligation to individual trust Unitholders.

For purposes of the future net revenue calculations, and consistent with the Trust's announced plans to seek Unitholder approval to convert to a corporation on or about December 31, 2010, this royalty trust structure is assumed to be discontinued effective January 1, 2011. Therefore the future net revenue calculations assume that the Corporation will be taxable at Alberta corporate tax rates and will have approximately \$2 billion of tax pools as of January 1, 2011.

Crown Royalty Changes

The "Royalties and Taxes" section of this AIF discusses three developments occurring during 2007 and 2008 with respect to the Syncrude Project's Alberta Crown Royalty terms:

1. The details of the oil sands industry crown royalty terms introduced in 2007 and effective on January 1, 2009.

2. The exercise during 2008 by Syncrude of its Bitumen Royalty Option effective January 1, 2009 and the terms under which Syncrude transitioned to a bitumen based royalty, including the Bitumen Valuation Methodology (“BVM”).
3. The agreement reached on November 18, 2008 between the Syncrude Joint Venture owners and the Alberta government regarding the terms under which Syncrude’s Alberta Crown Agreement will transition to the generic royalty regime by January 1, 2016.

Please refer to the “Royalties and Taxes” section of this AIF for a detailed discussion of these three developments.

Net proved and probable reserves, before and after tax future net revenues and resources information presented in this AIF incorporate these royalty terms in the estimates. The reserves and future net revenues utilize the reserve evaluators forecast Syncrude bitumen price summarized in the table on page 50. Over the project life, this is approximately 64 percent of the reserve evaluators forecast of light sweet crude oil prices at Edmonton. Syncrude’s Alberta Crown Royalties are highly sensitive to the deemed price of bitumen. Over the past 5 years, estimated average yearly prices for Syncrude bitumen using adjustments for quality, location and diluent consistent with the BVM have ranged from 36 percent to 78 percent of light sweet crude oil prices at Edmonton.

Production Estimates

A forecast of Canadian Oil Sands' production from the Syncrude Joint Venture for 2010 based on the guidance and information known at January 18, 2010 using forecast prices is presented below:

Synthetic Crude Oil (million barrels)

<u>Reserves Category</u>	<u>Gross</u>	<u>Net After Royalty</u>
Proved developed producing	42.3	37.3
Total proved	42.3	37.3
Total proved plus probable	45.1	39.8

Production History

The following table sets forth certain information in respect of production, product prices received, royalties and netbacks received by the Corporation for each quarter of its most recently completed financial year.

	<u>Quarter 1</u>	<u>Quarter 2</u>	<u>Quarter 3</u>	<u>Quarter 4</u>	<u>Year</u>
Average Daily Sales of SCO (bbls/d) ⁽¹⁾	102,825	75,553	114,544	119,287	103,129
Net Realized Selling Price ⁽²⁾	55.22	67.79	73.22	78.59	69.37
Operating Expenses	(38.78)	(50.23)	(27.80)	(30.18)	(35.29)
Royalties	(0.48)	(3.33)	(10.25)	(8.47)	(6.06)
Netback	15.96	14.23	35.17	39.94	28.02

Notes:

- (1) The average daily volumes reported for 2009 represent Canadian Oil Sands' average daily sales, which differ from its average daily production volumes primarily due to changes in in-transit pipeline volumes.
- (2) Net realized SCO sales price.

Reserve Life Index

Canadian Oil Sands' estimated reserve life index using reserves prepared by GLJ based on Canadian Oil Sands' January 28, 2009 guidance of approximately 115 million barrels per year of Syncrude production is as follows:

	Reserves (Millions of barrels)	Reserve Life Index (Years)
Total Proved Reserves	962	23
Proved plus Probable Reserves	1,860	44

Resources

In addition to the reserve definitions provided on page 49 of this AIF, we are providing the following definitions to assist you in understanding the terminology used in the following discussion of "Resources":

Contingent Resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations using established technology or technology under development, but which are not currently considered to be commercially recoverable due to one or more contingencies.

Prospective Resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects. Prospective resources have both an associated chance of discovery and a chance of development.

Best Estimate is a term used to describe an uncertainty category for resources estimates referring to the best estimate of the quantity that will actually be recovered. It is equally likely that the actual remaining quantities recovered will be greater or less than the "best estimate". The best estimate of Contingent and Prospective Resources is prepared independent of the risks associated with achieving commercial production.

See page 15 of this AIF for an outline of the leases held by the Syncrude Joint Venture, which total about 251,000 acres. Based upon independent evaluations conducted by GLJ effective December 31, 2009, the proved plus probable reserves and best estimates of other resource classes are as follows:

	Syncrude Project	COS⁽¹⁾
(billions of barrels of SCO)		
Proved plus probable reserves	5.1	1.9
Contingent resources ⁽²⁾ – best estimate	4.8	1.8
Prospective resources ⁽²⁾ – best estimate	2.0	0.7

Notes:

- (1) Based on the Corporation's 36.74 percent working interest in the leases.
- (2) Contingent and prospective resources are lower than reported last year as a result of transfers to probable reserves and the results of updated drilling and modeling.

The contingent resources are primarily associated with separate pits not currently planned to be developed in a timeframe that enable them to be classified as reserves, and for which an application for regulatory approval has not yet been prepared. A component of the contingent resources is associated with expansion (pushback) opportunities in river buffer zones. The pit design assumptions utilized in preparing the estimates are within the ranges currently being considered by industry in applications for regulatory approval of commercial surface mining developments. To the extent the Syncrude Participants have not committed to mine any of the contingent resources, any decision to mine may reflect a different planning basis than utilized in preparing the estimates. While we consider the contingent resources to be potentially recoverable under reasonable economic and operating conditions, there is no certainty that it will be commercially viable to produce any portion of the resources.

Prospective resources have significant additional risks relative to contingent resources. They are associated with specific areas within the Syncrude leases where existing well control is not sufficient, and it is believed that additional drilling could either result in the movement of these areas to contingent resources or their elimination from the assumed planning basis. Drilling within the areas of this continuous-type deposit that have been classified by GLJ as prospective is relatively exploratory at this point in time. GLJ's best estimate of prospective resources corresponds to 50 percent of their modeled estimate and hence makes some adjustment for risk. Nevertheless, there is no certainty that any portion of the prospective resources will be discovered. Furthermore, if discovered, there is no certainty that it will be commercially viable to produce any portion of the prospective resources.

DISTRIBUTABLE INCOME

A full copy of the current Trust Indenture can be found at www.cos-trust.com/corporate/corporategovernance, or at www.sedar.com under the Trust's company information.

Pursuant to Section 5.1 of the Trust Indenture, to the extent that there is distributable income, the Trustee generally pays all the income received or receivable by the Trust in a quarter less expenses and any other amounts required by law or the Trust Indenture itself. The Trust primarily receives income by way of a royalty and interest on intercompany loans from the Corporation (its principal operating subsidiary). The royalty is designed to capture the cash generated by the Corporation, after the deduction of all costs and expenses, including: operating and administrative costs, income taxes, capital expenditures, debt interest and principal repayments, working capital, and reserves for future obligations deemed appropriate. The amount of royalty income that the Trust receives in any period has a considerable amount of flexibility through the use of discretionary reserves and debt borrowings or repayments (either intercompany or third party). Quarterly distributions are determined by the Board of Directors of the Corporation after considering current and expected economic and operating conditions, ensuring financing capacity of Syncrude's expansion projects and/or Canadian Oil Sands acquisitions, and with the objective of maintaining an investment grade credit rating.

In 2009, Unitholder distributions were comprised of the trust royalty payments and income received by the Trust less the direct expenses of the Trust. Cash distributions paid to Unitholders are determined by the Corporation's Board of Directors, in their sole discretion, and will only be declared and paid if deemed prudent to do so. See the discussion regarding the volatility and lack of certainty on distributions under "Risk Factors".

At the discretion of the Corporation's Board of Directors, the Trust may also make cash distributions of the Trust's capital provided that such distributions are made out of funds that are in excess of amounts reasonably required to satisfy obligations of Canadian Oil Sands.

During normal operations when no major turnarounds are occurring, the production of SCO is generally consistent from month to month, but capital and other expenditures will generally occur in a less consistent manner. As a result, the Corporation has the right to hold back certain funds in the calculation of the trust royalty to allow it to meet cash requirements attributable to the Syncrude working interest and to meet its ongoing obligations as a Participant.

The actual amount of the trust royalty received by the Trust from the Corporation depends on the quantity of oil sold, prices received, hedging contract receipts and payments, capital, operating and administrative expenses, Crown royalties, debt service charges and financing, all as determined to be prudent by the Corporation. Further information is contained in our 2009 MD&A under the headings "Liquidity and Capital Resources" and under "Unitholder Distributions", which sections are incorporated herein by reference and is available on SEDAR at www.sedar.com.

Distribution History

Payment Date	Amount per Unit
February 26, 2010	\$0.35
November 28, 2009	\$0.35
August 28, 2009	\$0.25
May 29, 2009	\$0.15
February 27, 2009	\$0.15
November 28, 2008	\$0.75
August 29, 2008	\$1.25
May 30, 2008	\$1.00
February 29, 2008	\$0.75
November 30, 2007	\$0.55
August 31, 2007	\$0.40
May 31, 2007	\$0.40
February 28, 2007	\$0.30

DESCRIPTION OF CAPITAL STRUCTURE

General Description

The Trust is authorized to issue an unlimited number of ordinary trust units ("Units"). Each Unit represents a beneficial interest in the Trust and entitles the holder to one vote per Unit and participation in any distributions made by or liquidation of the Trust. At the annual general and special meeting of Unitholders held in April 2003, Unitholders approved the issuance by the Trust of convertible securities. As of March 22, 2010, there were no securities of the Trust created and issued other than Units. All Unitholders share equally in all distributions of the Trust. No conversion, retraction or pre-emptive rights are attached to the Units. Units are redeemable at the option of the Unitholder at a price that is the lesser of 90 percent of the average closing price of the Units on the principal trading market for the previous 10

days and the closing market price on the date of tender for redemption. There is a limit of \$250,000 per quarter for such redemptions. At the annual meeting of Unitholders held in April 2006, Unitholders approved a 5:1 split in the number of Units outstanding and also increased the authorized number of Units from 500,000,000 to an unlimited number of Units. As at December 31, 2009, an aggregate of 481,540,387 Units were issued and outstanding.

Foreign Ownership

The Trust Indenture, under which the Trust was created, provides that no more than 49 percent of the Units of the Trust can be held by non-Canadian residents. Depending upon the nature of the Trust's operations at the time, the potential impact of exceeding this threshold may be the loss of "mutual fund trust" status to the Trust, which may significantly adversely impact the valuation of the Units. As such, the Trust continues to monitor, to the extent possible given the practical limitations regarding beneficial ownership information, the level of non-Canadian resident Unitholders. To the best of our knowledge, the Trust has always had less than 50 percent non-Canadian resident Unitholders.

The Trust uses declarations from Unitholders and, occasionally, geographical searches to estimate the level of Canadian and non-Canadian resident Unitholders of the Trust at certain periods throughout the year. While the Trust believes that these results are reasonable estimations at the time that they are provided, the inability of all public issuers to obtain the residency information of its beneficial holders means that issuers are reliant upon the information provided to the transfer agent. As a result, the residency information is subject to the accuracy provided by third party data and by information system limitations. Accordingly, the reported level of Canadian ownership is subject to these limitations and the level of Canadian ownership may change at any time without notice and without our knowledge.

Based on account data at February 18, 2010, Canadian Oil Sands estimates that approximately 27 percent of our Units are held by non-Canadian residents with the remaining 73 percent being held by Canadian residents. We will continue to monitor the non-resident ownership levels.

If, based on the declarations or on the geographical list, the level of Units held by non-Canadian residents is 46 percent or more, then Canadian Oil Sands plans to issue a press release advising of the increased level and stating that it is anticipated that the Trust may reach 49 percent or more non-Canadian resident Unitholders and that, in such case, each person purchasing the Units, whether through a broker or directly in registered form, will need to complete a declaration as to their residency.

If the level of non-Canadian resident ownership appears to be approximately 49 percent or more, Canadian Oil Sands will make a public announcement that no further sales to non-Canadian residents will be allowed. No transfers will be allowed without the completion of a declaration indicating their status as a Canadian or non-Canadian resident. As part of such announcement, the Trustee shall state that it shall not accept a subscription for Units from or issue or register a transfer of Units to a person unless the person provides a declaration that the person is not a non-Canadian resident. In addition, if non-Canadian ownership is greater than 50 percent, then the Trustee will send a notice to non-resident holders of Units, chosen in inverse order to the order of acquisition or registration or in such other manner as the Trustee may consider equitable and practicable, requiring them to sell their Units or a specified portion thereof within the specified period of not less than 60 days. If the Unitholders receiving such notice have not sold the specified number of Units or provided the Trustee with satisfactory evidence that they are not non-Canadian residents within such period, the Trustee may, on behalf of such Unitholders sell such Units and, in the interim, shall suspend the voting and distribution rights attached to such Units. Any sale shall be made on the Toronto Stock Exchange ("TSX") and, upon such sale, the affected holders shall

cease to be holders of Units and their rights shall be limited to receiving the net proceeds of sale upon surrender of the certificates representing the Units.

The Board of Directors may consider these restrictions regarding non-Canadian resident ownership in light of the conversion to a corporation on or about December 31, 2010 if and when the Board faces a situation where it may need to implement these restrictions. Accordingly, further clarity on this issue is required from the federal government before Canadian Oil Sands can determine the best course of action for its Unitholders should this ownership limitation arise prior to conversion to a corporation in light of the trust taxation rules taking effect on January 1, 2011.

Rights Plan

A Unitholders rights plan for the Trust was approved by Unitholders in 2001 and Unitholders further approved an amended and restated plan in 2004. On April 25, 2007, at the annual meeting of Unitholders, Unitholders also approved and reconfirmed an amended and restated rights plan together with minor amendments (the "Rights Plan"). The Rights Plan is to be approved and reconfirmed again by Unitholders at the annual and general meeting to be held on April 29, 2010.

The primary objective of the Rights Plan is to provide the Board with sufficient time to explore and develop alternatives for maximizing Unitholder value if a takeover bid is made for Units and to provide every Unitholder with an equal opportunity to participate in such a bid. The Rights Plan encourages a potential acquiror to proceed either by way of a Permitted Bid (as defined in the Rights Plan), which requires the takeover bid to satisfy certain minimum standards designed to promote fairness, or with the concurrence of the Board. Unitholders are advised that the Rights Plan may preclude their consideration or acceptance of offers which do not meet the requirements of a Permitted Bid.

The effective date of the Rights Plan is April 26, 2004 and such Rights Plan has a 10 year term. On May 11, 2001, one right (a "Right") was issued and attached to each Unit then outstanding and will continue to attach to each Unit subsequently issued.

The Rights will separate from the Units and will be exercisable eight trading days (the "Separation Time") after a person has acquired, or commences a takeover bid to acquire, 20 percent or more of the Units, other than by an acquisition pursuant to a takeover bid permitted by the Rights Plan (a "Permitted Bid"). The acquisition by any person (an "Acquiring Person") of 20 percent or more of the Units, other than by way of a Permitted Bid, is referred to as a "Flip-in Event". Any Rights held by an Acquiring Person will become void upon the occurrence of a Flip-in Event. Eight trading days after the occurrence of the Flip-in Event, each Right, (other than those held by the Acquiring Person), will permit the purchase of Units at a 50 percent discount to their market price. The issue of the Rights is not initially dilutive. Upon a Flip-in Event occurring and the Rights separating from the Units, reported earnings per Unit on a fully diluted or non-diluted basis may be affected. Holders of Rights not exercising their Rights upon the occurrence of a Flip-in Event may suffer substantial dilution.

A bidder may enter into lock-up agreements with Unitholders whereby such Unitholders agree to tender their Units to the takeover bid (the "Subject Bid") without a Flip-in Event (as referred to above) occurring. Any such agreement must permit the Unitholder to withdraw the Units to tender to another takeover bid or to support another transaction that exceeds the value of the Subject Bid by as much or more than a specified amount, which specified amount may not be greater than seven percent.

Prior to the Separation Time, the Rights are evidenced by a legend imprinted on certificates for the Units issued from and after the effective date of the Rights Plan and are not to be transferable

separately from the Units. From and after the Separation Time, the Rights will be evidenced by Rights certificates which will be transferable and traded separately from the Units.

The requirements for a Permitted Bid include the following:

- (a) the takeover bid must be made by way of a takeover bid circular;
- (b) the takeover bid must be made to all Unitholders;
- (c) the takeover bid must be outstanding for a minimum period of 60 days and Units tendered pursuant to the takeover bid may not be taken up prior to the expiry of the 60 day period and only if at such time more than 50 percent of the Units held by Unitholders, other than the bidder, its affiliates and persons acting jointly or in concert and certain other persons (the "Independent Unitholders"), have been tendered to the takeover bid and not withdrawn; and
- (d) if more than 50 percent of the Units held by Independent Unitholders are tendered to the takeover bid within the 60-day period, the bidder must make a public announcement of that fact and the takeover bid must remain open for deposits of Units for an additional 10 business days from the date of such public announcement.

The Rights Plan allows for a competing Permitted Bid (a "Competing Permitted Bid") to be made while a Permitted Bid is in existence. A Competing Permitted Bid must satisfy all the requirements of a Permitted Bid except that it may expire on the same date as the Permitted Bid, subject to the requirement that it be outstanding for a minimum period of 35 days.

The Board, acting in good faith, may, prior to the occurrence of a Flip-in Event, waive the application of the Rights Plan to a particular Flip-in Event (an "Exempt Acquisition") where the takeover bid is made by a takeover bid circular to all holders of Units. Where the Board exercises the waiver power for one takeover bid, the waiver will also apply to any other takeover bid for the Trust made by a takeover bid circular to all holders of Units prior to the expiry of any other bid for which the Rights Plan has been waived.

The Board, with the prior approval of a majority vote of the votes cast by Unitholders (or the holders of Rights if the Separation Time has occurred) voting in person and by proxy, at a meeting duly called for that purpose, may redeem the Rights at \$0.001 per Unit. Rights may also be redeemed by the Board without such approval following completion of a Permitted Bid, Competing Permitted Bid or Exempt Acquisition.

The Board may amend the Rights Plan with the approval of a majority vote of the votes cast by Unitholders (or the holders of Rights if the Separation Time has occurred) voting in person and by proxy at a meeting duly called for that purpose. The Board of Directors without such approval may correct clerical or typographical errors and, subject to approval as noted above at the next meeting of the Unitholders (or holders of Rights, as the case may be), may make amendments to the Rights Plan to maintain its validity due to changes in applicable legislation.

The Rights Plan will not detract from or lessen the duty of the Board to act honestly and in good faith with a view to the best interests of the Trust. The Board, when a Permitted Bid is made, will continue to have the duty and power to take such actions and make such recommendations to Unitholders as are considered appropriate.

Investment advisors, trust companies (acting in their capacities as trustees and administrators), statutory bodies whose business includes the management of funds and administrators of registered pension plans acquiring greater than 20 percent of the Units are exempted from triggering a Flip-in Event, provided that they are not making, or are not part of a group making, a takeover bid. It is expected that New COSL will have a similar shareholder rights plan.

Ratings

As at March 22, 2010, the Units of the Trust have a stability rating of SR-4 issued by Standard & Poor's ("S&P"). The debt securities of the Corporation, the main operating subsidiary of the Trust, were rated BBB with a stable outlook by S&P and Baa2 with a stable outlook by Moody's Investor Service ("Moody's").

A S&P Canadian Income Fund Stability Rating is an opinion of a fund's overall sustainability and variability of cash flow, and a measurement of relative risk of cash-flow generation across all income fund sectors. Ratings range from "SR-1" for the highest level of distributable cash stability, to "SR-7" for the lowest with "SR-4" having a moderate level of distributable cash flow generation relative to other income funds in the Canadian marketplace.

Moody's credit ratings are on a long term debt rating scale that ranges from Aaa to C, which represents the range from highest to lowest quality of such securities rated. According to the Moody's rating system, obligations rated Baa are subject to moderate credit risk. They are considered medium-grade and as such may possess certain speculative characteristics. Moody's appends numerical modifiers 1, 2 and 3 to each generic rating classification from Aa through Caa in its corporate bond rating system. The modifier 1 indicates that the issue ranks in the higher end of its generic rating category, the modifier 2 indicates mid-range ranking and the modifier 3 indicates a ranking in the lower end of its generic rating category.

S&P's credit ratings are on a long term debt rating scale that ranges from AAA to D, which represents the range from highest to lowest quality of such securities rated. According to the S&P rating system, an obligation rated "BBB" exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation. The ratings from AA to CCC may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.

The stability and credit ratings mentioned herein are not a recommendation to purchase, hold or sell the Units or the debt securities of the Corporation and do not comment as to market price or suitability for a particular investor. Neither the Corporation nor the Trust can assure investors that any rating will remain in effect for any given period of time or that any rating will not be revised or withdrawn entirely by a rating agency in the future if in its judgment circumstances so warrant and, if any such rating is so revised or withdrawn, neither the Corporation nor the Trust is under any obligation to update this AIF.

MARKET FOR SECURITIES

Price Range and Trading Volumes of Trust Units

The Units are listed for trading on the TSX and trade under the symbol “COS.UN”. The table below sets out the closing price ranges and volumes traded on the TSX during 2009.

Month	High (\$/Unit)	Low (\$/Unit)	Close (\$/Unit)	Volume Traded
January	24.94	16.65	18.70	44,649,750
February	22.83	18.07	20.00	47,474,116
March	26.85	17.91	24.25	40,294,169
April	29.33	23.30	24.64	32,289,751
May	29.95	24.00	28.00	41,449,228
June	29.85	25.17	27.79	35,741,810
July	27.87	24.45	27.12	30,844,707
August	29.82	26.53	27.50	25,248,336
September	30.87	26.50	30.75	26,921,232
October	34.89	27.76	29.18	39,997,924
November	31.67	28.05	29.25	32,078,854
December	30.74	28.23	29.91	19,159,031

Note 15 *Unitholders' Equity* of the audited consolidated annual financial statements of the Trust for the year ended December 31, 2009 is incorporated herein by reference.

Prior Sales

In May 2009, the Corporation issued 7.75 percent unsecured Senior Notes with a principal amount of US\$500 million pursuant to a private offering memorandum. These Senior Notes bear interest at a rate of 7.75 percent per annum, which is paid semi-annually, and mature on May 15, 2019. The net proceeds were used to refinance \$250 million of Medium Term Notes that matured in June 2009 and US\$250 million of unsecured Senior Notes that matured in August 2009 and for general corporate purposes.

DIRECTORS AND OFFICERS

The Trust has no directors, officers or employees. The following information pertains to the board of directors and officers of the Corporation as at March 22, 2010.

Directors

As at March 22, 2010 and December 31, 2009, the directors of the Corporation are as set forth below. The Corporation's articles provide that the Corporation must have a minimum of five and a

maximum of ten directors. The Corporation's directors are elected annually by the Trust's Unitholders directing the Trustee to appoint the approved directors. In addition, in between meetings of Unitholders, the Trustee may appoint one additional director to the Board.

The following are the names, the province and country of residence of each director of the Corporation, their positions with the Corporation and principal occupations within the past five years and the year in which each first became a director of the Corporation.

Name and Province and Country of Residence	Position Held and Principal Occupation	Year First Became a Director⁽⁴⁾
IAN A. BOURNE ⁽¹⁾⁽²⁾ Alberta, Canada	Corporate Director; Chairman, Ballard Power Systems Inc.	2007
MARCEL R. COUTU Alberta, Canada	President and Chief Executive Officer, Canadian Oil Sands Limited	2001
DONALD J. LOWERY ⁽¹⁾⁽³⁾ Alberta, Canada	Chairman, Canadian Oil Sands Limited since October 1, 2009; Corporate Director; President and Chief Executive Officer, EPCOR Inc. (utilities)	2007
THE RIGHT HONOURABLE DONALD F. MAZANKOWSKI ⁽²⁾ Alberta, Canada	Corporate Director and Business Consultant	2002
WAYNE NEWHOUSE ⁽¹⁾⁽³⁾ Alberta, Canada	Corporate Director	1996
BRANT G. SANGSTER ⁽²⁾⁽³⁾ Alberta, Canada	Corporate Director	2006
C.E. (CHUCK) SHULTZ ⁽¹⁾⁽²⁾⁽³⁾ Alberta, Canada	Corporate Director since October 1, 2009; prior thereto Chairman, Canadian Oil Sands Limited Chairman and Chief Executive Officer, Dauntless Energy Inc. (private oil and gas corporation)	1996
WESLEY R. TWISS ⁽¹⁾⁽³⁾ Alberta, Canada	Corporate Director	2001
JOHN B. ZAOZIRNY, Q.C. ⁽²⁾⁽³⁾ Alberta, Canada	Corporate Director; Vice Chair, Canaccord Financial Corporation (investment firm); prior to January 1, 2008, Counsel, McCarthy Tétrault LLP (law firm)	1996

Notes:

- (1) Member of the Audit Committee.
- (2) Member of the Corporate Governance and Compensation Committee.
- (3) Member of the Reserves, Marketing Operations and Environmental, Health & Safety Committee.
- (4) All of the directors of the Corporation have been appointed to hold office until the next annual meeting of Unitholders or until their successors are duly elected or appointed, unless their office was earlier vacated.

Each of the directors listed above has been engaged in the occupation set forth in the above table or similar occupations with the same employer for the last five years except: Mr. Bourne (who was the Executive Vice President and Chief Financial Officer of TransAlta Corporation from January 1998 to December 2005 and President of TransAlta Power LP from March 1998 to December 2006); and Mr. Newhouse (who was President of Morgas Ltd. from 2001 to 2005).

The term of office of all directors will expire on the date of the next annual meeting of Unitholders. All of the directors of the Corporation have been appointed to hold office until the next

annual meeting of Unitholders or until their successors are duly elected or appointed, unless their office was earlier vacated.

Computershare Trust Company of Canada is the Trustee of the Trust. The Corporation does not have an executive committee. The Corporate Governance and Compensation Committee was formed in early 2002. Effective January 1, 2007, the Board created a Reserves, Marketing Operations and Environmental, Health & Safety Committee to deal with reserves matters, marketing matters and environmental, health and safety issues, taking over responsibility for reserves from the Audit Committee.

Audit Committee

The Audit Committee is comprised of the members listed below. The Board has determined that each member of the Audit Committee is an "independent" director and is "financially literate" under applicable securities policies. In considering criteria for the determination of financial literacy, the Board of Directors considered the member's ability to read and understand a balance sheet, an income statement and a cash flow statement of a public company as well as the member's past experience in reviewing or overseeing the preparation of financial statements. Beside each member's name is such person's education and experience relevant to such member's performance as an audit committee member.

Name	Relevant Education and Experience
Wesley R. Twiss (Chair)	Mr. Twiss has over 40 years experience in the oil and gas industry, including more than 10 years as chief financial officer of large public oil and gas companies which held or managed an interest in the Syncrude Joint Venture. Mr. Twiss chairs the Audit Committee of EPCOR Utilities Inc. He has experience in accounting and internal controls, corporate finance and capital markets, corporate governance and income trust issues. Mr. Twiss has a B.A.Sc (Chemical Engineering) from the University of Toronto, an MBA from the University of Western Ontario and is a member of the Institute of Corporate Directors ("ICD"). He has completed the ICD Corporate Governance College Director Education Program and has received the ICD.D. designation.
C.E. (Chuck) Shultz	Mr. Shultz has acted on the boards and audit committees of several public and private entities including Newfield Exploration Company and Enbridge Inc. He was the former Vice Chairman of the University of Calgary and Chair of the Audit Committee of the University of Calgary. Mr. Shultz was the former Chief Executive Officer of Gulf Canada Resources Limited. He has over 30 years of experience in the oil and gas sector and has completed the Advanced Management Program at Harvard Business School and has completed the ICD Corporate Governance College Director Education Program and has received the ICD.D. designation.
Wayne M. Newhouse	Mr. Newhouse has acted in various director and executive capacities for a number of private and public entities, primarily in the oil and gas sector. He is currently the Chair of the Audit Committee of ET Energy Ltd., a private company. In particular, he was the former Chair of the Audit Committee of Progas Ltd. and former director and Chair of the Reserves and Audit Committee of Petrofund Energy Trust. Mr. Newhouse has also completed an Alexander Hamilton Institute two year business program and Investment Dealer Association courses as well as the Financial Literacy for Directors course.

Name	Relevant Education and Experience
Donald J. Lowry	Mr. Lowry has over 25 years of industry experience in the utilities and communications sectors. He has acted in various director capacities. Currently, he is the President and Chief Executive Officer of Epcor Inc., and the Chairman of Capital Power Corporation. He also is a director of the Canadian Electrical Association and of Alberta Economic Development Authority. Mr. Lowry holds an MBA and has completed the Advanced Management Program at Harvard Business School and also completed the ICD Corporate Governance College Director Education Program and has received the ICD.D. designation.
Ian A. Bourne	Mr. Bourne has acted in various director capacities for a number of public entities. He is currently the Chair of Ballard Power Systems Inc., a board member of the Canada Pension Plan Investment Board, SNC Lavalin Group Inc. and a director of WAJAX Income Fund and WAJAX Limited. He is also a member of the Canadian Public Accountability Board. Mr. Bourne has over 30 years experience including eight years as the Executive Vice President and Chief Financial Officer of TransAlta Corporation, President of TransAlta Power L.P. as well as serving as the Chief Financial Officer of Canada Post and GE Canada. He has completed the ICD Corporate Governance College Director Education Program and has received the ICD.D. designation.

The terms of reference for the Audit Committee are available on the Trust's website at www.cos-trust.com/corporate/corporategovernance. These terms of reference as at March 22, 2010 are attached hereto as Schedule "A". As part of such terms of reference, the Audit Committee has adopted procedures relating to the engagement of non-audit services whereby any non-audit services over \$25,000 must be pre-approved by the Chair of the Audit Committee or the Audit Committee itself and as such is relying on the exemption in Section 2.4 of National Instrument 52-110 *Audit Committees* in respect of de minimis non-audit services.

The Audit Committee has restricted the auditors from providing any services that could reasonably be seen as functioning in the role of management, auditing their own work or acting in an advocate role for Canadian Oil Sands. In particular, the external auditor is not to provide bookkeeping functions, actuarial or appraisal services (other than related to tax services), internal audit, human resources, or legal services (other than for French translation services). The Audit Committee has defined what constitutes audit services, audit related services, tax services and other services. Since January 1, 2009, all recommendations by the Audit Committee to nominate or compensate external auditors have been adopted by the Board of Directors. All of the services provided and the amounts paid must be disclosed to the Audit Committee at the Audit Committee meeting immediately following such engagement. If any of the services (other than audit services) are over \$25,000, such services must be pre-approved by the Audit Committee or the Chair of the Audit Committee. See page 68 of this AIF under "Fees Paid to Auditors" for the amounts approved for payment to the auditor in respect of 2009 and 2008.

Officers

There are no direct officers of the Trust. Instead, management of the Trust is exercised by the Corporation and its directors and officers. The Bylaws of the Corporation identify the role of Chairman held by Mr. Donald Lowry as an officer. The following table identifies each of the officers (including the role of Chairman) of the Corporation, as at March 22, 2010, their jurisdiction of residence, their current office, and their principal occupations for the five-year period proceeding December 31, 2009.

Name and Province and Country of Residence	Current Office	Five Year History of Principal Occupations
DONALD J. LOWRY Alberta, Canada	Chairman of the Board	President and CEO of EPCOR Inc.; Corporate Director
MARCEL R. COUTU Alberta, Canada	President and Chief Executive Officer	President and Chief Executive Officer of the Corporation
RYAN M. KUBIK Alberta, Canada	Chief Financial Officer	Chief Financial Officer of the Corporation since April, 2007; prior thereto, Treasurer of the Corporation from September, 2002 to April, 2007 with a dual role as Controller from July, 2005 to July, 2006
TRUDY M. CURRAN Alberta, Canada	General Counsel and Corporate Secretary	General Counsel and Corporate Secretary of the Corporation
ALLEN R. HAGERMAN, FCA Alberta, Canada	Executive Vice President	Executive Vice President since April, 2007; prior thereto, Chief Financial Officer of the Corporation from June, 2003 to April, 2007
TREVOR R. ROBERTS, Alberta, Canada	Chief Operations Officer	Chief Operations Officer of the Corporation since September, 2005; prior thereto, Senior Vice President, Operations of Suncor Inc. from 1997 to May, 2005
DARREN K. HARDY Alberta, Canada	Vice President, Operations	Vice President, Operations since September 2, 2008; prior thereto, Business Unit Manager of Syncrude Canada Ltd. from September, 1989 to August, 2008
ROBERT P. DAWSON Alberta, Canada	Treasurer	Treasurer of the Corporation since May, 2007; prior thereto, Director, Financial Governance and External Reporting, Suncor Energy Inc. from March, 2004 to April, 2007; prior thereto, Finance Director, Corporate, Global Crossing Ltd.
SIREN FISEKCI Alberta, Canada	Vice President, Investor and Corporate Relations	Vice President, Investor and Corporate Relations since February, 2010; Director, Investor Relations of the Corporation from April, 2006 to February, 2010; prior thereto, Manager, Investor Relations of the Corporation from November, 2002 to April, 2006
SCOTT W. ARNOLD Alberta, Canada	Sustainability Officer	Sustainability Officer since February, 2010; Assistant Treasurer of the Corporation from January, 2007 to February, 2001; prior thereto, Senior Financial Analyst of the Corporation from July, 2005 to January, 2007 prior thereto Senior Manager, Financial Advisory, Deloitte & Touche LLP from 2002 to July, 2005

As of March 1, 2010, to the knowledge of the Corporation, the directors and officers of the Corporation, as a group, beneficially own, control or direct, directly or indirectly, 2,254,256 Units of the Trust, representing less than one percent of the issued and outstanding Units of the Trust.

FEES PAID TO AUDITORS

PricewaterhouseCoopers LLP was first appointed on April 19, 1996 as the auditor of a predecessor of the Trust, also named Canadian Oil Sands Trust, and was appointed as the auditor of the Trust and the Corporation's predecessors in July and August 2001. The aggregate fees paid to PricewaterhouseCoopers LLP (exclusive of GST) in 2008 and 2009 were as follows:

<u>Fees Descriptions</u>	<u>2009</u>	<u>2008</u>
Audit	\$342,375	\$342,375
Audit Related	\$57,000	\$10,000
Tax	\$155,000	\$209,618
Other (software)	\$3,600	\$6,000

Audit related services relate primarily to review of specific accounting issues related to the financial statements such as future tax calculations. Most of the tax services relates to tax return filings and assessments.

See the discussion of the role of the Audit Committee in approving these fees under the heading “Audit Committee” on page 66 of this AIF.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Other than as disclosed in this AIF, no director or officer of the Corporation, nor any person or company who beneficially owns, or controls or directs, directly or indirectly, more than 10 percent of the outstanding Units, nor any associate or affiliate of any such persons, has a material interest, direct or indirect, in any transaction since January 1, 2007 that has materially affected or is reasonably expected to materially affect Canadian Oil Sands.

Computershare Trust Company of Canada acts as both Trustee and the transfer agent and registrar for the Units, and receives fees for its services in both capacities. In its capacity as Trustee of the Trust, the Trustee is paid a reasonable fee in connection with the administration and management of the Trust and is also reimbursed for all expenses properly incurred, as agreed by the Trustee and the Corporation.

The Trustee, on behalf of the Trust, holds all of the issued and outstanding common shares of the Corporation.

LEGAL PROCEEDINGS

There are no legal proceedings to which we are a party to or of which any of our property is or was the subject of, nor are there any proceedings known by us to be contemplated that involves a claim for damages, exclusive of interest and costs, exceeding 10 percent of our current assets.

TRANSFER AGENT AND REGISTRARS

Computershare Trust Company of Canada is our trustee and the transfer agent and registrar for the Units at its principal offices in Vancouver, Calgary, Toronto, Montreal, and Halifax. They may be contacted at 710, 530 – 8th Avenue S.W., Calgary, Alberta T2P 3S8; phone (403) 267-6800; facsimile (403) 267-6598.

INTEREST OF EXPERTS

PricewaterhouseCoopers LLP

The Trust's auditors are PricewaterhouseCoopers LLP, Chartered Accountants ("PwC"), who have prepared an independent auditors' report dated February 23, 2010 in respect of the Trust's consolidated financial statements with accompanying notes as at and for the years ended December 31,

2009 and 2008. PwC has advised that they are independent with respect to the Trust within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Alberta.

GLJ Petroleum Consultants Ltd.

In June, 2009 the Corporation appointed GLJ as the independent reserves evaluator for Canadian Oil Sands. The partners and associates of GLJ, as a group, own, directly or indirectly, less than one percent of the outstanding Units.

MATERIAL CONTRACTS

The following is a list of the material contracts required to be disclosed under NI 51-102 *Continuous Disclosure Obligations* that either the Trust or the Corporation had entered into and which were still in effect as of March 22, 2010 and for which copies may be found at www.sedar.com:

a) *Arrangement Agreement made as of March 5, 2010 between the Trust, the Corporation and Acquireco, as amended on March 15, 2010*

The Trust, the Corporation and Acquireco have entered into the Arrangement Agreement pursuant to which the trust structure of Canadian Oil Sands is to be reorganized into a corporation by way of the Arrangement to be effected in accordance with Section 193 of the *Business Corporations Act* (Alberta) and involving the Trust, the Corporation, Acquireco and the Unitholders of the Trust. The effective date of the Arrangement is expected to occur on or about January 1, 2011, subject to satisfaction or waiver of all conditions to the closing of the Arrangement. Pursuant to the Arrangement, Unitholders will receive one common share of Acquireco for each Unit held. For additional information regarding the proposed Arrangement, see the Management Proxy Circular of the Trust dated March 15, 2010.

b) *Fifth Amended and Restated Trust Indenture dated as of April 26, 2006, as amended*

This trust indenture created the Trust and sets out the governance of the Trust and is available on the Trust's website at www.cos-trust.com.

c) *Management Agreement between the Corporation and the Trust*

The Trust has no directors, officers or employees. Instead, pursuant to the provisions of the Trust Indenture and the Management Agreement, the Corporation provides management services to the Trust. Under the Management Agreement, in each quarter the Corporation is to be paid an amount equal to the sum of the following: (a) a fixed fee of \$125,000 per quarter and (b) all other out-of-pocket and third party fees, costs and expenses reasonably incurred by the Corporation in carrying out its obligations or duties under the Management Agreement.

d) *Amended and Restated Rights Plan Agreement dated as of April 25, 2007 between the Trust and Computershare Trust Company of Canada*

The amended and restated rights plan was approved by Unitholders in April 25, 2007. A copy of the document is available on SEDAR. See a description of the Rights Plan on pages 59 to 61 of this AIF.

e) *Ownership and Management Agreement dated March 5, 1975, as amended, among Syncrude Participants and SCL*

This agreement outlines and governs the basis upon which the various owners of the Syncrude Project created the Syncrude Joint Venture and how the Syncrude Participants authorize and govern the operation of such project by SCL. There is no term to the agreement. The agreement sets out the requirements for unanimous agreement of the Syncrude Participants to undertake major expansions to the Syncrude Project or to change the operator of the Project. Under the terms of the Ownership and Management Agreement, each Syncrude Participant is required to fund its proportionate share of the operating and approved capital expenditures of the Syncrude Project and in turn receives its share of the SCO and other products produced by SCL as operator of the Syncrude Project. Failure to fund by a Syncrude Participant results in the loss by that Syncrude Participant of its share of the SCO and products produced from the Syncrude Project until the other Participants have been able to offset the expenditure liability for which the defaulting Participant owes.

f) *Crown Royalty Agreements among the Syncrude Participants and Her Majesty the Queen in Right of Alberta dated February 4, 1975, as amended*

The agreements set out the basis upon which the Syncrude Participants will pay Crown royalties to the Alberta government in respect of production from various leases in the Syncrude Project. Through various amendments, the Alberta government agreed to a maximum royalty payable by the Syncrude Participants in respect of production from various leases in the Syncrude Project as to the greater of one percent of the gross revenues and 25 percent of net revenues less allowed applicable operating, non-production and capital costs up to and including December 31, 2015. Starting January 1, 2009, such payment is based on the deemed value of bitumen produced rather than upgraded synthetic crude oil. The Syncrude Participants agreed to pay royalties based on the greater of 25 percent of net deemed bitumen revenues, or one percent of gross deemed bitumen-based revenues, plus an additional royalty of up to \$975 million (\$358 million net to the Trust) for the period January 1, 2010 to December 31, 2015. The additional royalty of \$975 million is reduced proportionally on bitumen production less than 345,000 barrels per day over the period and is payable in six annual installments, in respect of the following period:

(\$Millions)

	2010	2011	2012	2013	2014	2015	Total
Syncrude Canada	75	75	100	150	225	350	975
Canadian Oil Sands' Share	27	27	37	55	83	129	358

This agreement is in effect until December 31, 2015.

After 2015, the Syncrude Project will be subject to the New Royalty Framework that applies to the entire oil sands industry. Currently, this generic royalty regime is based on a sliding scale rate that responds to Canadian dollar equivalent WTI ("C\$-WTI") price levels. The minimum royalty will start at one percent of deemed bitumen revenue and increase when C\$-WTI oil is above \$55 per barrel, to nine percent of deemed bitumen revenue at \$120 per barrel or higher. The net royalty rate will start at 25

percent of net deemed bitumen revenue and rise for every dollar of C\$-WTI increase above \$55 per barrel up to 40 percent of net deemed bitumen revenue at \$120 per barrel or higher.

g) *Bank Credit Facilities*

Each of the credit facilities of the Corporation is unsecured. These credit agreements contain typical covenants relating to the restriction on Canadian Oil Sands' ability to sell all or substantially all of its assets or to change the nature of its business. In addition, Canadian Oil Sands has agreed to maintain its total debt-to-total book capitalization at an amount less than 60 percent, or 65 percent in certain circumstances involving acquisitions. In particular, there are currently three bank facilities as follows:

(i) Extendible Revolving Term Facility dated April 27, 2005, as amended and extended, with the Royal Bank of Canada

The \$40 million extendible revolving term facility is a 364-day facility with a one year term out, expiring April 22, 2010. This credit agreement is in the process of being extended. This facility may be extended on an annual basis with the agreement of the bank. Amounts borrowed through this facility bear interest at a floating rate based on bankers' acceptances plus a credit spread, while any unused amounts are subject to standby fees.

(ii) Operating Credit Facility among a syndicate of banks and the Corporation dated April 27, 2005, as amended and extended

The \$800 million operating credit facility is a five-year facility, expiring April 27, 2012. Amounts borrowed through this facility bear interest at a floating rate based on either prime interest rates or bankers' acceptances plus a credit spread, while any unused amounts are subject to standby fees.

h) *Long term debt instruments*

The Corporation is the entity which issues all of the material debt instruments relating to Canadian Oil Sands. All of the Senior Notes issued by the Corporation are unsecured, rank pari passu with other senior unsecured debt of the Corporation, and contain certain covenants that place limitations on the sale of assets and the granting of liens or other security interests.

The Senior Notes issued by the Corporation were placed in the United States under a private placement exemption and are not guaranteed by the Trust. Each of the Senior Notes is issued under separate trust indentures.

(i) Trust Indenture dated as of April 1, 1997, as amended, between the Bank of New York, as trustee, and the Corporation as successor to AOSII

On April 4, 1997, the Corporation issued US\$75 million of 8.2 percent Senior Notes, maturing April 1, 2027, and retired US\$1.05 million during 2000. Interest is payable on the notes semi-annually on April 1 and October 1.

(ii) Trust Indenture dated as of August 24, 2001, as amended, between The Bank of New York as trustee and the Corporation

On August 24, 2001 COSL issued US\$250 million of 7.9 percent Senior Notes, maturing September 1, 2021. Interest is payable on the notes semi-annually on March 1 and September 1. COSL has

agreed to maintain its senior debt to book capitalization at an amount less than 55 percent. Unlike the trust indentures relating to the other issuances of Senior Notes, this trust indenture contains a provision whereby if the ratings for the unsecured debt of the Corporation fall below investment grade, there is a step up in the amount of interest payable on the notes.

(iii) Trust Indenture dated as of August 6, 2003, as amended, between the Bank of New York as trustee and the Corporation as the issuer

On August 6, 2003, the Corporation issued US\$300 million of 5.8 percent Senior Notes, maturing August 15, 2013. Interest is payable on the notes semi-annually on February 15 and August 15.

(iv) Indenture dated as of May 11, 2009, as amended, between the Bank of New York as trustee and the Corporation as the issuer

On May 11, 2009, the Corporation issued US\$500 million of 7.75 percent Senior Notes maturing on May 15, 2019. Interest is payable on the notes semi-annually on May 15 and November 15. See “Market for Securities - Prior Sales” for further details.

ADDITIONAL INFORMATION

Additional information relating to Canadian Oil Sands is available through the internet via SEDAR at www.sedar.com.

In particular, additional information, including with respect to directors' and officers' remuneration and indebtedness, principal holders of the Trust's securities, and securities authorized for issuance under equity compensation plans is contained in the Trust's Management Proxy Circular dated March 15, 2010, which relates to the Annual and Special Meeting of Unitholders to be held on April 29, 2010. Additional financial information is also provided in the Trust's consolidated comparative audited financial statements and notes thereto and management's discussion and analysis for the year ended December 31, 2009.

SCHEDULE "A"

Audit Committee – Terms of Reference

I. PURPOSE

- A. The primary function of the Audit Committee (the "Committee") is to assist the Board of Directors of Canadian Oil Sands Limited ("COSL") in fulfilling its oversight responsibilities by reviewing:
 - i) the financial information that will be provided to the unitholders of Canadian Oil Sands Trust (the "Trust") 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 the Trust, COSL and the other subsidiaries of the Trust is vested in management and is overseen by the Board.
- C. The Committee reviews and receives the reports of the internal auditor as part of the internal control oversight of the Trust, COSL and the other subsidiaries of the Trust.
- D. The Committee shall monitor the independence and performance of the external auditors and of the internal auditors of the Trust, COSL and the other subsidiaries of the Trust.

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 or the Trust and its subsidiaries 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 Multilateral Instrument 52-110, 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 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 unitholders.
- D. The Committee shall meet at least four times each year. The Chairman may call additional meetings as required. In addition, a meeting may be called by the non-executive 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, if applicable, internal auditors.
- I. The Committee provides open venues of communication among management, employees, external auditors and the Board.
- J. The non-executive 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 by a combination of the foregoing.
- 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 or by videoconference, by means of telephone or combination thereof, shall constitute a quorum.
- O. The Chair of the Audit 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.

III. DUTIES AND RESPONSIBILITIES

Subject to the powers and duties of the Board and without limiting the members' duties as Board members, 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 with regard to the Trust, COSL and other subsidiaries of the Trust, as applicable, and report to the Board before the statements are approved by the Board;
- ii) reviewing and approving the quarterly unaudited financial statements and management's discussion and analysis with regard to the Trust, COSL, and other subsidiaries of the Trust, as applicable, and approving the release of such financial statements and interim management's discussion and analysis to the public together with the press releases thereon;
- iii) reviewing and authorizing 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 the Trust and 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 the Trust, COSL and/or other subsidiaries of the Trust;
- viii) reviewing and discussing any significant proposed changes in financial reporting and accounting policies and practices to be adopted by the Trust, COSL and/or other subsidiaries of the Trust;
- ix) reviewing and discussing any new or pending developments in accounting and reporting standards that may materially affect the Trust, COSL and/or other subsidiaries of the Trust;
- 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 the Trust or 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 Audit 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 the Trust, COSL and other subsidiaries of the Trust 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 the Trust, COSL and other subsidiaries of the Trust;
- 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, if such position exists, 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;
- iv) monitor compliance with statutory and regulatory obligations;
- v) establish procedures for the receipt, retention and treatment of complaints received by the Trust or COSL regarding accounting, internal accounting controls or auditing matters and establish procedures so that the confidential, anonymous submission by employees regarding questionable accounting matters are handled appropriately;
- vi) review the report from the Risk Management Committee regarding any credit risk or violations of applicable marketing policies as part of the Audit Committee's oversight of financial risk management for the Trust, COSL and any other subsidiary of the Trust; and
- vii) review management's monitoring of compliance with COSL's Code of Business Conduct.

For greater certainty, the Audit 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 Audit 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, assess the performance and recommend to the Board, for unitholder approval, the appointment, retention and compensation of the external auditors;
- ii) review the annual external audit plan;

- iii) meet with the external auditors to discuss quarterly and annual financial statements of the Trust, COSL, and other subsidiaries of the Trust, as applicable, and the auditors' reports thereon;
- iv) review and report to the Board with respect to the planning, conduct and reporting of the annual audit, including but not limited to:
 - a) any difficulties encountered, or restriction imposed by management, during the annual audit;
 - b) critical accounting policies and estimates and alternatives to such policies and estimates;
 - c) any significant accounting or financial reporting issue;
 - d) if appropriate, the auditors' evaluation of the system of internal controls, procedures and documentation for the Trust, COSL and other subsidiaries of the Trust;
 - e) 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
 - f) any other material matters the external auditors bring to the Committee's attention;
- 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 Audit 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 the Trust's or COSL's current or former external auditors; and
- ix) discuss and review with the external auditor, all relationships such auditor has with the Trust and COSL as part of the assessment of the independence of the external auditor, as well as the external auditor's qualification and performance and the results of any internal reviews of the external audit firm as regards to any findings of inadequacies or concerns raised by external governance or regulating bodies.

D. Internal Audit

- i) review the internal audit functions including:
 - (A) the purpose, authority and organizational reporting lines;
 - (B) the annual 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.

E. Tax

- i) review and approve any material changes to the corporate structure related to tax planning as proposed by management for the Trust and its subsidiaries; and
- ii) review all material tax issues.

F. Other

- i) review material litigation as such impacts on 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 the Trust and COSL, including without limitation, any such disclosure contained in a management proxy circular;
- iv) review any related party transactions between the Trust or any subsidiary of the Trust, including 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 counsel, accountants or others to assist it in the conduct of any investigation;

- vii) approve the appointment, re-assignment or removal of the Chief Financial Officer of the Corporation, 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 the Corporation, subject to the recommendation of the Corporate Governance and Compensation Committee and the final approval of the Board; and
- ix) the Committee shall have the authority to direct and to supervise the investigation into any matter brought to its attention within the scope of its duties. It shall 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.

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 each annual or, where circumstances warrant, at such short interval as the Committee deems appropriate or necessary, to determine if further additions, deletions or other amendments are required.

FORM 51 – 101F2

**REPORT ON RESERVES DATA
BY
INDEPENDENT QUALIFIED RESERVES
EVALUATOR OR AUDITOR**

To the board of directors of Canadian Oil Sands Limited (the “Company”):

1. We have prepared an evaluation of the Company’s reserves data as at December 31, 2009. The reserves data are estimates of proved reserves and probable reserves and related future net revenue as at December 31, 2009, estimated using forecast prices and costs.
2. The reserves data are the responsibility of the Company’s management. Our responsibility is to express an opinion on the reserves data based on our evaluation.

We carried out our evaluation in accordance with standards set out in the Canadian Oil and Gas Evaluation Handbook (the “COGE Handbook”) prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary Chapter) and the Canadian Institute of Mining, Metallurgy & Petroleum (Petroleum Society).

3. Those standards require that we plan and perform an evaluation to obtain reasonable assurance as to whether the reserves data are free of material misstatement. An evaluation also includes assessing whether the reserves data are in accordance with principles and definitions in the COGE Handbook.
4. The following table sets forth the estimated future net revenue (before deduction of income taxes) attributed to proved plus probable reserves, estimated using forecast prices and costs and calculated using a discount rate of 10 percent, included in the reserves data of the Company evaluated by us for the year ended December 31, 2009, and identifies the respective portions thereof that we have audited, evaluated and reviewed and reported on to the Company’s board of directors:

Independent Qualified Reserves Evaluator	Description and Preparation Date of Evaluation Report	Location Reserves (Country or Foreign Geographic Area)	Net Present Value of Future Net Revenue (before income taxes, 10% discount rate, million dollars)			
			Audited	Evaluated	Reviewed	Total
GLJ Petroleum Consultants	February 5, 2010	Canada	-	19,004	-	19,004

5. In our opinion, the reserves data respectively evaluated by us have, in all material respects, been determined and are in accordance with the COGE Handbook.
6. We have no responsibility to update our reports referred to in paragraph 4 for events and circumstances occurring after their respective preparation dates.

7. Because the reserves data are based on judgments regarding future events, actual results will vary and the variations may be material. However, any variations should be consistent with the fact that reserves are categorized according to the probability of their recovery.

EXECUTED as to our report referred to above:

GLJ Petroleum Consultants Ltd., Calgary, Alberta, Canada, February 22, 2010

(signed) "James H. Willmon"

James H. Willmon, P. Eng.
Vice-President

FORM 51 – 101F3

**REPORT OF MANAGEMENT AND DIRECTORS
ON RESERVES DATA AND OTHER INFORMATION**

Report of Management and Directors on Reserves Data and Other Information

Management of Canadian Oil Sands Limited (the “**Company**”), as manager of Canadian Oil Sands Trust (the “**Trust**”), is responsible for the preparation and disclosure of information with respect to the Trust’s oil and gas activities in accordance with securities regulatory requirements. This information includes reserves data, which are estimates of proved reserves and probable reserves and related future net revenue as at December 31, 2009 estimated using forecast prices and costs.

An independent qualified reserves evaluator has evaluated the Trust’s reserves data. The report of the independent qualified reserves evaluator will be filed with securities regulatory authorities concurrently with the report.

The Reserves, Marketing Operations and Environmental, Health and Safety Committee (the “**Reserves Committee**”) of the Board of Directors of the Company has:

- (a) reviewed the procedures for providing information to the independent qualified reserves evaluator;
- (b) met with the independent qualified reserves evaluator to determine whether any restrictions affected the ability of the independent qualified reserves evaluator to report without reservation; and
- (c) reviewed the reserves data with management and the independent qualified reserves evaluator.

The Reserves Committee of the Board of Directors has reviewed the Company’s procedures for assembling and reporting other information associated with oil and gas activities and has reviewed that information with management. The Board of Directors has, on the recommendation of the Reserves Committee, approved:

- (a) the content and filing with securities regulatory authorities of Form 51-101F1 containing reserves data and other oil and gas information;
- (b) the filing of Form 51-101F2 which is the report of the independent qualified reserves evaluator on the reserves data; and
- (c) the content and filing of this report.

Because the reserves data are based on judgements regarding future events, actual results will vary and the variations may be material. However, any variations should be consistent with the fact that reserves are categorized according to the probability of their recovery.

CANADIAN OIL SANDS LIMITED, on its own behalf and as Manager of **CANADIAN OIL SANDS TRUST**

Signed "Marcel R. Coutu"

Name: Marcel R. Coutu
Title: President and Chief Executive Officer

Signed "Trevor R. Roberts"

Name: Trevor R. Roberts
Title: Chief Operations Officer

Signed "Wayne M. Newhouse"

Name: Wayne M. Newhouse
Title: Director

Signed "Wesley R. Twiss"

Name: Wesley R. Twiss
Title: Director

March 22, 2010