Strength|Agility

Canadian Oil Sands Trust 2009 Annual Report

ADVISORY

In the interest of providing Unitholders and potential investors of Canadian Oil Sands Trust (the "Trust" or "Canadian Oil Sands") with information regarding the Trust, including Management's assessment of the Trust's future production and cost estimates, plans and Syncrude operations, as well as the proposed conversion to a corporate structure, certain statements throughout this annual report contain "forward-looking statements" under applicable securities law. Forward-looking statements in this annual report include, but are not limited to, statements with respect to: the ability of Syncrude's reserve base to support production at 350,000 bpd for decades; the outlook for 2010 on page 3, including without limitation statements regarding production, operating costs, realized selling price, the differential to West Texas Intermediate crude oil, the movement of mine trains and capital expenditures related thereto, the expectation for crude oil prices; Syncrude's resource base providing a long-life cash generating asset base and that all the bitumen can be produced by open pit mining with recovery rates of about 90%; the expectation that we have the ability to substantially grow production at Syncrude through controlled expansions; the expected levels of maintenance capital and growth capital over the next few years; the expectation to grow production to 350,000 bpd and eventually to 600,000 bpd of bitumen and 425,000 bpd of synthetic crude oil; expansion plans regarding bitumen capacity and upgrader debottlenecking; the expectation of achieving the production design rates from Coker 8-3 and Stage 3; the actual recoverable amounts from any reserves or resources; plans regarding net debt levels; plans to convert to a corporate structure on or about December 31, 2010; the belief and plans regarding improved reliability and lower costs as well as overall improved operations at Syncrude flowing from the Management Services Agreement between Syncrude Canada and Imperial Oil; the belief that demand for our synthetic crude oil product will grow and that it will benefit both our revenues and cost structure; the expected investments and costs related to environmental legislation and regulations; the proposed reduction in sulphur dioxide and other emissions; the expectation that Syncrude will continue to develop better and more sustainable practices; the short-term and long-term goals for operations, growth, distributions and the business environment; the expected improvement in energy efficiency; the productive capacity that can be achieved in the future; the quality of Syncrude's leases; the plans to reduce sulphur dioxide emissions to less than 60% of current approved levels through the Syncrude Emissions Reduction project; the belief that Syncrude can add production more easily and cheaper than a greenfield operation; the plans for 2010 with regards to turnarounds and maintenance; the expectation of cheaper and more technologically advanced operations flowing from the agreement with Imperial Oil regarding Kearl Lake and Syncrude's mine relocations; the expected timing and associated production impact of coker and other unit turnarounds in 2010; the expected revenues, operating costs and cash from operating activities for 2010; the anticipated impact that certain factors such as natural gas and oil prices, foreign exchange, operating costs and Crown royalties have on the Trust's cash from operating activities and net income; the expected capital expenditures in 2010 and beyond; current plans to remain unhedged; impact on distributions as a corporation rather than a trust; our expectations on our ability to reach design capacity; plans regarding expanding Syncrude's production capacity. You are cautioned not to place undue reliance on forward-looking statements, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. By their nature, forward looking statements involve numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will not occur. Although the Trust believes that the 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 that could cause results to differ materially from those expressed in the forward-looking statements contained in this annual report include, but are not limited to: the supply and demand metrics for oil and natural gas; general economic, business and market conditions and in particular, the impact of any downturn in the economy and the length of such economic recession; risks inherent to the operation of any large, complex refinery units, especially the integration between mining operations and an upgrader facility; regulatory changes which may impact the penalties on greenhouse gas emitters and operators with tailings ponds ; labour shortages and the productivity achieved from labour in the Fort McMurray area; the impact of technology on operations and processes and how new complex technology may not perform as expected; currency and interest rate fluctuations; the availability of pipeline and global refining capacity; changes in business strategy; the availability and price of energy commodities; regulatory decisions; the effects of competition and pricing pressures; shifts in market demands; changes in laws and regulations including environmental and regulatory laws; potential increases in costs; timing of completion of capital or maintenance projects; the availability of adequate levels of insurance; various events which could disrupt operations including severe weather conditions; technological changes and management retention and development; such other risks and uncertainties described from time to time in the reports and filings made with securities regulatory authorities by the Trust, including those outlined in the Management's Discussion and Analysis ("MD&A") in this annual report and the assumptions outlined in the guidance for 2010 actually occurring. You are cautioned that the foregoing list of important factors is not exhaustive. Furthermore, the forward-looking statements contained in this annual report are made as of the date of this annual report and unless required by law, the Trust 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 annual report are expressly qualified by this cautionary statement. In any reference to resources in this annual report, there is no certainty that any portion of the resources will be discovered. If discovered, there is no certainty that it will be commercially viable to produce any portion of the resources. Unless otherwise specified, all dollar amounts are expressed in Canadian dollars, all references to "dollars" or "$" are to Canadian dollars and all references to "U.S.$" are to United States dollars.

NON-GAAP FINANCIAL MEASURES

In the MD&A 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, 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 Statements 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 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.

strength \strengkth\strenth\ *noun*: the state or quality of being strong; a capacity for endurance or exertion; a strong attribute or inherent asset *synonyms*: stability, power, energy

agility \a-gil-i-ty\ *noun*: the state or quality of being quick, resourceful and adaptable; the ability to think quickly *synonyms*: activity, quickness, adaptability

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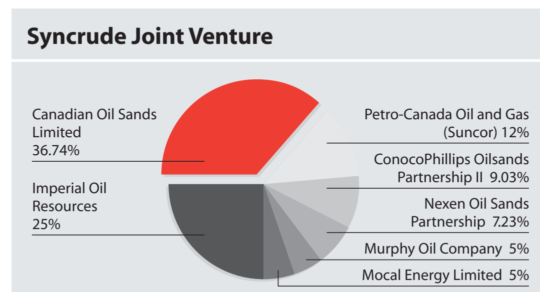
Trust Profile



Canadian Oil Sands is the largest joint venture owner of Syncrude, a major producer of light, sweet, synthetic crude oil from Canada's bitumen-rich oil sands. Formed in 1995, Canadian Oil Sands generates revenue from its share of production, and has a history of paying quarterly distributions. As a pure investment in Syncrude, and led by an experienced hands-on management team, Canadian Oil Sands is a unique investment in long-term crude oil assets. Syncrude's productive capacity is 350,000 barrels per day and its reserve base could support production at that level for decades. Canadian Oil Sands has a market capitalization of about $14 billion* and is listed on the Toronto Stock Exchange under the symbol COS.UN.

** as at February 23, 2010*

Trust Highlights

	09	08	% Change
Financial *($ millions, except per Trust Unit amounts)*			
Revenues, after crude oil purchases and transportation	**2,615**	4,169	(37)
Net income	**432**	1,523	(72)
Per Trust Unit, Basic	**0.89**	3.17	(72)
Per Trust Unit, Diluted	**0.89**	3.16	(72)
Cash from operating activities	**547**	2,241	(76)
Per Trust Unit	**1.13**	4.66	(76)
Unitholder distributions	**435**	1,804	(76)
Per Trust Unit	**0.90**	3.75	(76)
Ratios			
Net debt to cash from operating activities *(times)*	**1.9**	0.4	
Net debt to total capitalization *(%)*	**21**	20	
Return on average Unitholders' equity *(%)*	**11**	38	
Return on average productive capital employed *(%)*	**7**	34	
Operations			
Sales volumes, net of crude oil purchases			
Total *(mmbbls)*	**37.6**	38.8	(3)
Daily average *(bbls)*	**103,129**	105,986	(3)
Operating costs *($/bbl)*	**35.29**	35.26	0
Capital expenditures *($ millions)*	**409**	281	46
Net Synthetic Crude Oil realized selling price *($/bbl)*	**69.47**	106.91	(35)
Average West Texas Intermediate *(U.S.$/bbl)*	**62.09**	99.75	(38)
Average foreign exchange rate *(U.S.$/Cdn$)*	**0.88**	0.94	(6)
Unit Information			
Closing price on December 31 *($/Trust Unit)*	**29.91**	21.10	42
Weighted-average units *(millions)*	**484**	482	0

All references to "dollars" or "$" are to Canadian dollars and all references to "U.S.$" are to United States dollars.

A five-year statistical summary is provided on page 84.

Performance and Plan

	2009 Outlook[1]	2009 Actual	2009 Actual vs Outlook	2010 Outlook[2]
Sales[3] (mmbbls)	40-44 Midpoint of 42.3	38	X Missed guidance • Turnaround and modification work on Coker 8-3 complex took longer than anticipated. • Bitumen supply was constrained in the first quarter. • Unplanned maintenance on the Vacuum Distillation Unit. • Lower than anticipated reliability.	40-44 Midpoint of 42.3
Operating Costs ($/bbl)	$30.76	$35.29	X Missed guidance • Lower than anticipated production (as aggregate operating costs are largely fixed, per barrel operating costs are affected by variances in production). • Additional costs to expand Syncrude's mining fleet.	$35.04
Cash from Operating Activities ($/Trust Unit)[4]	$1.55	$1.13	X Missed guidance • Primarily reflects increase in non-cash working capital. • Revenues were actually higher than our Outlook as a result of crude oil prices averaging $62.09 per barrel in 2009 versus our assumption of $50 per barrel. • However, higher than anticipated crude oil prices were offset by lower sales, higher operating costs and higher Crown royalties.	$2.09
Capital Expenditures ($ millions)	$440	$409	√ On budget • Expenditures primarily related to maintenance of business and the Syncrude Emissions Reduction project.	$541

1 2009 Outlook as at January 28, 2009 based on the Trust's 36.74% Syncrude interest.
2 2010 Outlook as at January 28, 2010 based on the Trust's 36.74% Syncrude interest.
3 The Trust's sales volumes may differ from its production volumes due to changes in inventory, which are primarily in-transit pipeline volumes, and are net of purchased crude oil volumes.
4 Non-GAAP measure.

The following are the key assumptions shaping our 2010 Outlook:

- The production estimate reflects planned turnarounds of Coker 8-1 and other operating units, and an allowance for unplanned outages.
- Capital expenditures primarily relate to expenditures to maintain productive capacity, which currently include major projects such as the Syncrude Emissions Reduction project and mine train moves.
- WTI crude oil prices averaging U.S.$70 per barrel in 2010.
- Syncrude receiving a discount of $2 per barrel for its Synthetic Crude Oil relative to Cdn$ WTI crude oil prices in 2010.
- AECO natural gas prices averaging $6 per gigajoule in 2010.
- The foreign exchange rate (U.S.$/Cdn$) averaging $0.95 in 2010.

Changes in the following factors would impact our 2010 Outlook for cash from operating activities:

	$ Millions	$/Unit
WTI crude oil price increase (U.S.$1.00/bbl)	$33	$0.07
Syncrude production increase (2 million bbls)	$39	$0.08
Syncrude operating cost decrease (Cdn$1.00/bbl)	$35	$0.07
Syncrude operating cost decrease (Cdn$50 million)	$15	$0.03
Canadian dollar weakening (U.S.$0.01/Cdn$)	$23	$0.05
AECO natural gas price decrease (Cdn$0.50/gigajoule)	$17	$0.04

An opposite change in each of these variables will result in the opposite cash from operating activities impact. These sensitivities assume royalties are paid at 25% of net bitumen revenue. Canadian Oil Sands periodically updates its Outlook for 2010 on its website at www.cos-trust.com under Investor.

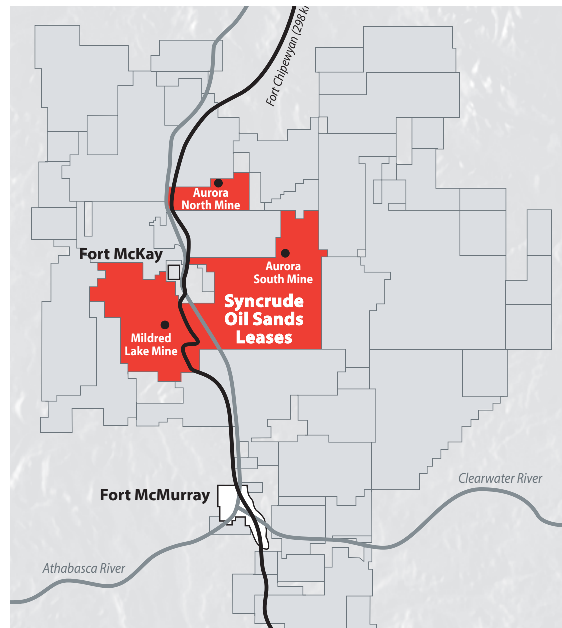
Strong Asset

Strength at Canadian Oil Sands centres on the assets of Syncrude. With more than 30 years of operating experience in the oil sands, Syncrude's production has surpassed 2 billion barrels of light, sweet, synthetic crude oil. A leading investor in new technologies and processes, Syncrude encompasses large oil sands mines, utilities plants, bitumen extraction plants, and an upgrading complex. The mined bitumen is upgraded to a high quality, synthetic crude oil that is sold to refineries across North America and has historically received a price close to Canadian dollar West Texas Intermediate. Syncrude's leases span some of the richest bitumen deposits in Canada's oil sands. All of the bitumen can be produced by open pit mining, with proven technologies and high rates of recovery of about 90 per cent.

Reserves and Resources [1]

Billions of barrels of Synthetic Crude Oil		Syncrude	Canadian Oil Sands [2]
Proved plus probable reserves		5.1	**1.9**
Contingent resources	best estimate	4.8	**1.8**
Prospective resources	best estimate	2.0	**0.7**

1 Based on independent reserves and resources estimates by GLJ Petroleum Consultants Ltd. as of December 31, 2009. See reserves and resources cautionary advisory in Canadian Oil Sands' AIF dated March 22, 2010 and the definitions in the Glossary on page 83.
2 The Trust, through its operating subsidiary, holds a 36.74% interest in the Syncrude Project.



Syncrude's leases are in the sweet spot of the Athabasca Oil Sands deposit, and hold enough resource to produce crude oil over several decades.

Syncrude Expansion Plans

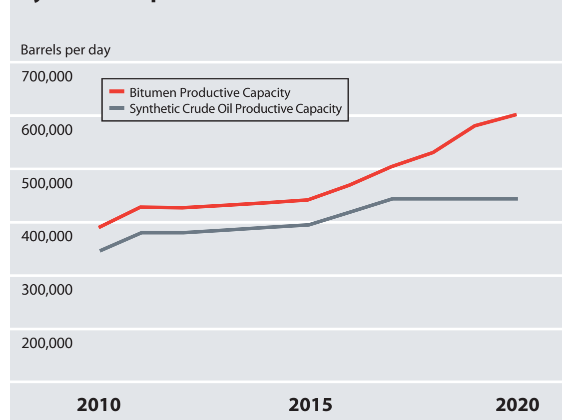
Plans are being developed to expand Syncrude's productive capacity. A staged approach to unlock production potential in the existing upgrading facility and build bitumen supply should result in volume growth from 2015 to 2020. Through a series of debottleneck projects, Syncrude intends to capitalize on investments already made in the existing plant, enabling volumes to be brought on with lower risk and better rates of return than constructing a new upgrading facility. By the end of the decade, Syncrude expects to be producing over 600,000 barrels per day of bitumen, from which upgraded synthetic crude oil productive capacity would be about 425,000 barrels per day. The roughly 115,000 barrels per day of excess bitumen production would provide Syncrude with operational flexibility and Canadian Oil Sands with the ability to market multiple products. (Syncrude's process results in a lower yield of Synthetic Crude Oil from bitumen on a per barrel basis.)

Bitumen Capacity Expansion

- A new mine is planned on Aurora South leases with the phased construction of two mining trains – the modular processing units for mining and extracting bitumen.
- May include solvent de-asphalting to enable bitumen sales.

Upgrader Debottleneck

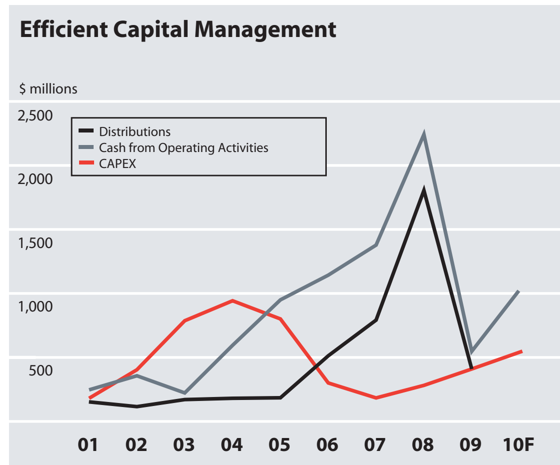
- Syncrude's current facility has excess coking capacity.
- A series of debottleneck projects – modifications of existing facilities with the potential addition of new units – is planned to upgrade growing bitumen supply from Aurora South.

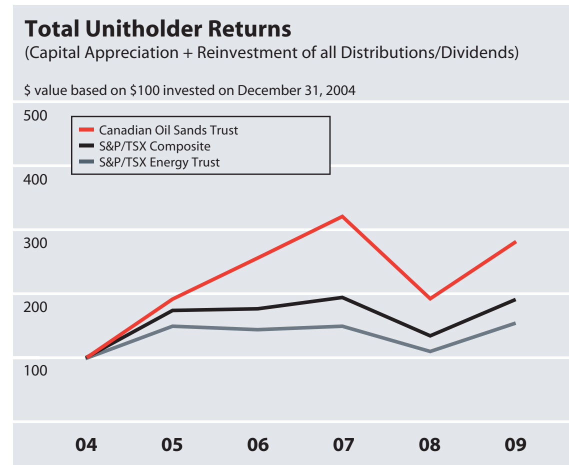


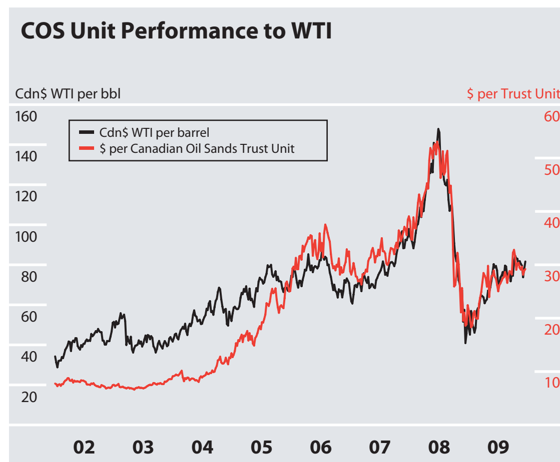
Agile Management

The team at Canadian Oil Sands has a track record of executing a strategy to manage sudden and often dramatic changes in market conditions. That agility and expertise has led to solid performance for investors over the long term. Since 2001 when this team joined the Trust, $9.60 per Unit of cash has been distributed and total compound returns to investors have averaged 24 per cent annually (capital appreciation plus reinvestment of all distributions).

These strong results hinge on prudent financial management, particularly, efficient allocation of capital, to support a strong balance sheet, take advantage of growth opportunities and return excess cash to investors. Over the past decade, Canadian Oil Sands has grown its share of Syncrude production and reserves through investments to expand Syncrude's design capacity and by acquiring additional interests in the Project. Certainly, Canadian Oil Sands' trading price has historically correlated to the price of crude oil. Management's current plan of remaining unhedged exposes investors to crude oil prices.

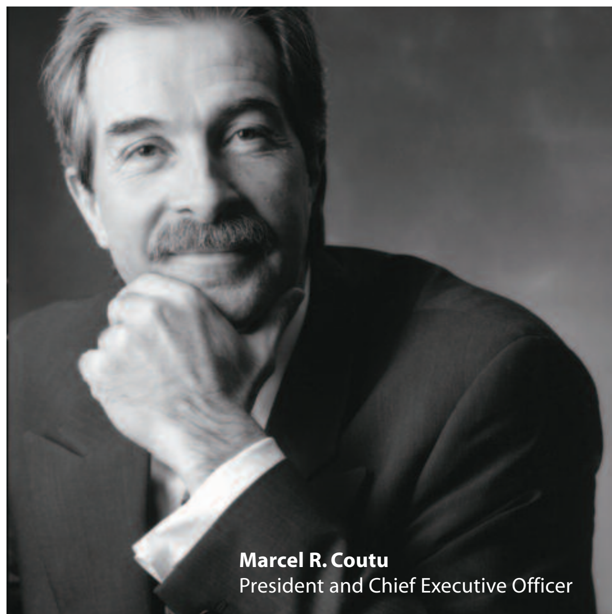






President's Message

The goals we set YESTERDAY drive the actions of TODAY which enable the success of TOMORROW.



Marcel R. Coutu
President and Chief Executive Officer

Looking back on 2009, I am proud of how we managed the Trust through the most difficult economic period in our history. Our agility in responding to the rapid drop in crude oil prices and the severe tightening in the credit markets helped us maintain a strong balance sheet, preserve liquidity and protect long-term value. Our first steps were to cut the distribution to $0.15 per Trust Unit and reinstate our distribution reinvestment plan. As conditions began to improve in the credit markets, we refinanced approximately $500 million of debt maturities, further improving our liquidity position.

We emerged from the economic crisis in a strong financial position. Year-end net debt to total capitalization was only 21 per cent, essentially unchanged from the prior year. Today, our credit facilities of $840 million remain fully available, providing financial flexibility for our future.

Revenues for the 2009 fiscal year reflect weaker crude oil prices and lower production volumes relative to the prior year. In 2009, we generated cash from operating activities of $547 million ($1.13 per Trust Unit). Net income was $432 million ($0.89 per Trust Unit). As crude oil prices improved over the year, we steadily increased distributions from $0.15 to $0.35 per Trust Unit, paying out a total of $435 million ($0.90 per Trust Unit) to our investors during 2009.

The events of the past 18 months have confirmed for me that the financial strategy we set many years ago remains the best approach for managing our business. That strategy centres on two main principles. Firstly, we aim to maintain a strong balance sheet with relatively low debt levels when we are not funding growth projects. This helps preserve our investment grade credit ratings, supports us in remaining unhedged on our crude oil production, and provides financial capacity to take advantage of growth opportunities when they arise. Secondly, we direct the cash we generate to fund growth opportunities, but during periods of lower investment, we return that cash to investors. The cash payouts investors receive will vary, depending largely on changes in crude oil prices, our funding obligations and investment opportunities,

and Syncrude's operational performance. We do not intend to change this approach when we convert to a corporation at the end of 2010. That means our investors should expect cash payouts to continue to vary.

I believe the strategy I just described has underpinned our ability to deliver strong returns to investors over the long term. We have historically paid a quarterly distribution, while investors anticipate longer-term capital appreciation potential. Our long-life resource, growth profile with virtually no geological or exploration risk, and an unhedged, light, sweet crude oil production stream give investors long-term exposure to a valuable commodity. We are indeed a unique investment opportunity.

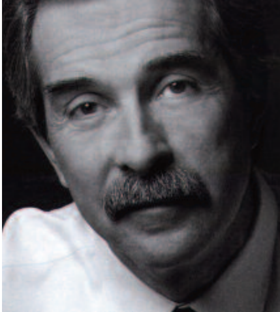
While much of our potential resides in appreciation of crude oil prices, we are working to maximize this potential through improved operational reliability. Syncrude experienced unplanned downtime in 2009, resulting in production of an average of 280,000 barrels per day and a total of 102 million barrels – missing our target of 115 million barrels. However, significant strides were made to improve operational reliability in 2009. Extensive turnaround work and modifications were made to our Coker 8-3 complex with the goal of improving yield and run length. As well, equipment in the mines was augmented and extraction facilities were improved to increase bitumen supply. Efforts to improve operational reliability will continue through 2010, with our outlook for Syncrude production being 115 million barrels, about 90 per cent of the design capacity of 129 million barrels.

Canadian Oil Sands is a long-term investment and I would like to convey my strong sense of confidence and optimism for our future. We are producing a vital commodity with strong and growing global demand. Our Syncrude asset represents a stake in one of the largest known sources of crude oil in the world. This resource became an industry – providing economic benefits and jobs – through Canadian ingenuity and tenacity. Today, the oil sands secure Canada's energy future. As we develop this significant resource, we are committed to improving our environmental performance. I believe ingenuity and determination will once again produce the technologies and practices to achieve further improvement in this important area.

My view is that crude oil prices will increase over the medium and long term, based on the relatively tight global supply and demand fundamentals for this essential, finite resource. Our task is to mitigate the shorter-term volatility in crude oil prices through prudent capital management. We have a strong team with a track record of doing just that, and our strategy is supported by our experienced Board of Directors. In particular, I would like to thank Mr. Chuck Shultz and the Rt. Honourable Donald Mazankowski for their contributions. Mr. Shultz was instrumental in the formation of the Trust and was Chairman of the Trust and one of its predecessors from 1996 to September 30, 2009, when he passed that role to Mr. Don Lowry. Mr. Shultz has been an important mentor to me, so I am pleased he has agreed to continue to serve on our Board. Unfortunately, I will miss the sage counsel on complex government matters provided by Mr. Mazankowski, as he has decided to retire from our Board.

Based on the strength of our Syncrude asset, our commitment to responsible development, the long-term prospect for crude oil prices and our ability to respond to changing market forces, I look forward to a promising future for our industry and our Company.

(signed) **Marcel R. Coutu**
President and Chief Executive Officer
February 23, 2010



Q&A

with Marcel Coutu, President and CEO, and Ryan Kubik, CFO

Q: What will change when Canadian Oil Sands becomes a corporation, and what impact will it have on distributions?

Not all that much will change. Although we will have a new legal and tax structure, our approach to managing the business will remain the same. As background, the Canadian government is changing the taxation of income trusts effective January 1, 2011. Under the new rules, it makes more sense to convert to a corporate entity rather than remain a trust. As a corporation, our approach to dividends will be very similar to our management of distribution payments as a Trust. This means that dividend payments will vary, reflecting changes in crude oil prices, economic conditions, Syncrude's operating performance and our operating and investing obligations.

What will change is that, consistent with other corporations, income tax will reduce the amount available for us to distribute. Based on projected federal and provincial tax rates, income in excess of annual tax deductions will be subject to tax at a rate of 26.5 per cent in 2011 and 25 per cent thereafter. By December 31, 2010, we anticipate having total tax deductions of about $2 billion to shelter income for a period of time before income tax is paid. For Canadian investors who hold their Units in a taxable account, their after-tax returns will be similar to pre-conversion because they should be able to receive the benefit of the dividend tax credit.

We expect to convert to a corporation on or about December 31, 2010. The conversion itself is not expected to trigger any adverse tax consequences to the Trust, or to our Canadian and U.S. resident Unitholders, based on current legislation and external tax advice. Of course, investors are encouraged to consult their own tax advisors regarding any tax matters.

We look forward to expanding our investor base when we become a corporation. We know that many investors find Canadian Oil Sands Trust a compelling investment opportunity, but have been discouraged or prevented from investing by the trust structure. This barrier will now disappear, as will the 49 per cent foreign ownership limitation.

What are the challenges to reaching design capacity?

There is significant value to be realized by achieving design capacity, currently 350,000 barrels per day at Syncrude. Syncrude's costs are largely fixed, so incremental volumes should translate into bottom line results. To reach that point, we need to improve the reliability of our mining, extraction and upgrading operations.

In 2008 and the first quarter of 2009, our mining operations constrained our bitumen production, a consequence of falling behind in overburden removal and a decline in the productivity and availability of our mining fleet. Syncrude has brought in additional equipment and employed contractor services to catch up with overburden removal. As well, modest amounts of bitumen were purchased from third parties for periods of time to supplement our own production. These activities contributed to higher operating costs, but alleviated the bitumen shortfall. We believe our mining operations have stabilized, although the focus on mining reliability and bitumen supply will remain a priority as Syncrude moves towards design capacity rates.

In upgrading, we suffered unplanned capacity losses in 2009 as a result of various reliability issues, which included unit trips, longer repair cycles and unplanned maintenance. To improve reliability, new operating systems have been introduced, such as ExxonMobil's proprietary Global Reliability System. This system sets in place a maintenance schedule and methodology for identifying and targeting the root cause of operational disruptions. Once fully integrated, we believe this and other systems will allow us to reach design capacity rates on a more consistent, predictable basis.

What are you doing to reduce your cost of production?

There are two main factors that increase operating costs. The first is inflation, which impacts the entire industry, and the second is reduced reliability.

Despite a weaker economy in 2009, demand for labour in the Fort McMurray region remains strong, resulting in inflationary pressure. Labour is a significant portion of our cost structure.

Improving operational reliability is our best opportunity to reduce operating costs. Syncrude has incurred additional costs for reactionary maintenance and repairs. Diminished reliability also has resulted in lower production volumes, compounding the cost on a per barrel basis. Producing at

design capacity rates would enable us to distribute the relatively fixed costs of our facility over more barrels, thus reducing per barrel operating costs. That is a priority. Once we have achieved design capacity production, we can then focus on identifying further cost reduction opportunities.

Yet operating costs are only half of the story. The other half is sustaining capital – costs associated with maintaining productive capacity, such as replacement of mining and upgrading equipment. Sustaining capital requirements will vary, and Syncrude has two major projects underway which will increase sustaining capital costs over the next few years.

The first is the Syncrude Emissions Reduction project, a $1.6 billion investment with the goal of reducing air emissions, primarily sulphur dioxide, by 60 per cent from current approved levels. Syncrude is about half-way through that project with completion expected in the second half of 2011.

The second major project involves mine planning. Over the next three to four years, Syncrude will relocate two trains at the Aurora North mine and reconstruct two others at the North mine. The work on these four trains will be done in cooperation with Imperial Oil's Kearl Lake oil sands mining project. Both projects should benefit from cost efficiencies and synergies in project management, design, procurement and labour.

The new mining trains should add about 10 per cent incremental bitumen capacity. As well, they will incorporate new, industry-leading Syncrude technology called wet crushing, aimed at lowering maintenance and improving bitumen recovery rates.

Is the Management Services Agreement* achieving what you expected?

We believe the Management Services Agreement (MSA) is the best way to achieve a fundamental and transformative improvement in Syncrude's operational performance. Syncrude is a complex and integrated mining, bitumen extraction and upgrading facility that requires a disciplined, rigorous approach to operational processes and maintenance. The MSA has brought globally-proven operational systems and expertise into the organization. Most of these systems now have been implemented. As well, senior level Imperial Oil and ExxonMobil people are supporting the Syncrude organization, an important benefit as Syncrude employees with decades of service begin to retire.

It has taken longer than we anticipated for the MSA to improve operational reliability.
We underestimated the time it would take for new systems and processes to be fully integrated into the organizational culture. Although we are disappointed at the pace of progress, we believe the MSA has set Syncrude on a course for industry-leading performance over the long term.

** In November 2006, Syncrude entered into a Management Services Agreement (MSA) with Imperial Oil. The MSA enables Syncrude to access the best practices, proprietary systems and personnel of Imperial Oil and ExxonMobil. Imperial Oil is a 25 per cent owner of the Syncrude Project and ExxonMobil owns nearly 70 per cent of Imperial Oil.*

What are the plans to expand Syncrude's production capacity?

During 2009, Syncrude's expansion plans were further refined based on preliminary design work. When expansions are approved, ExxonMobil will provide the project management expertise, a strong advantage since they have leading global talent and capacity in this area, plus a vested interest in Syncrude's success.

Based on recent work done by Syncrude and ExxonMobil (under the MSA growth mandate), we now believe the existing upgrading facility has latent capacity that can be accessed through a series of debottleneck projects, resulting in productive capacity of about 425,000 barrels per day of synthetic crude oil towards the end of this decade. The economics should be strong because we can take advantage of existing infrastructure. Most notably, Syncrude has pre-built coking capacity from its last expansion.

The expanded upgrader capacity would be supplied by bitumen from the undeveloped Aurora South mine. 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 processing capacity, 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.

Of course, opening a new mining area is capital intensive because it requires infrastructure, such as roads and utilities. In December 2009, Syncrude submitted an update report to the regulators further to the conditions for approval received for Aurora South in 1998. Syncrude's joint venture owners would also need to provide approvals to move from scoping work to detailed engineering work and then construction.

These growth plans would result in Syncrude broadening its production from the current light, sweet synthetic blend. The decision on product qualities and investment in new upgrading facilities will be based on the economics and further analysis of future crude oil markets, including the price differential between light and heavy product blends.

How do you respond to concerns about the environmental impacts of oil sands development?

Oil sands development does have a large environmental impact, however, that impact is being managed through responsible stewardship and continued improvements in practices and technologies. The industry is facing two closely related issues; performance and public perception.

Since commercial development of the oil sands began roughly 30 years ago, the industry has greatly improved its environmental performance. Syncrude alone invests more than $50 million annually in the development of new technologies and more efficient processes. Such technologies include Low Energy Extraction and the Optimized Low Energy Process, which reduced carbon dioxide emissions from bitumen extraction by about 65 per cent. Sulphur dioxide emissions also are expected to decline by some 60 per cent from current approved levels through Syncrude's Emissions Reduction project. Syncrude now invests $100 million annually in land reclamation. Although it is a long-term process, about 22 per cent of the lands disturbed by Syncrude's operations have been reclaimed; the remainder is still in active use. We also are responding to more stringent regulations; new technologies for tailing ponds are being tested to accelerate the settling of fine fluid tailings to allow for faster reclamation.

Our industry is committed to further environmental improvements. These will be particularly important as the industry grows and its overall impact on the environment increases. At both the provincial and federal levels, we are regulated by some of the strictest environmental controls enacted anywhere in the world, but we also have a powerful self-interest to operate with high standards of environmental responsibility. We must think long term – this resource will be developed over decades. As part of that future focus, Canada's largest oil sands operators have committed to a set of guiding principles for oil sands development; these are provided on page 15 of this report.

Despite our environmental progress, our industry's reputation has been damaged, largely as public perception has been shaped by critics of oil sands development who present a narrow and often inaccurate view. However, as an industry we have failed to communicate openly, and we have not responded as well as we should have to inaccuracies and criticisms of our business. We are working to change that now.

We believe it is critical to foster a more balanced, constructive dialogue. We must have the public's support to develop the oil sands, and that support depends on demonstrating responsible environmental stewardship. Without such support, the consequences could be far-reaching, including the loss of markets and new government regulations and penalties that could threaten the viability of the industry.

The consequences for Canadians are also far-reaching. The oil sands resource represents the future of Canada's oil supply. Without the oil sands, Canada would become a net importer of crude oil, with the uncertainties of supply, negative impacts on our economy and indeed, on our quality of life. In time, renewable energy sources should become an increasing part of our energy mix, but the development of those technologies will take time and substantial investment.

Ultimately, our environmental performance is a critical determinant in the success of our industry. Major strides have been made in developing technologies in the oil sands and improving our processes and efficiencies. These efforts are an important part of our environmental stewardship, which is a critical component in our future.

What is the industry doing to communicate better with the public?

We believe everyone expects and deserves credible information about energy, the economy, our operations and our environmental performance. The entire industry has become more active and open in telling the oil sands story and in communicating with the public. The website at www.canadasoilsands.ca engages Canadians in an open dialogue on oil sands development.

At Canadian Oil Sands, we are speaking directly with Canadians across the country. As President and CEO, I have met with university students, business groups and media in Toronto, Hamilton, Halifax, St. John's and Winnipeg. I intend to visit other cities in the coming months. You can learn more about that effort by visiting www.OilSandsNow.ca.

Information about the environmental performance of our Syncrude Project, along with other corporate social responsibility indicators, is available in a detailed bi-annual report. In May 2010, Syncrude will publish its 2008/2009 Sustainability Report which will be available at www.syncrude.ca.

What do you consider to be Canadian Oil Sands' merits as an investment?

We believe Canadian Oil Sands Trust is a uniquely attractive investment. We offer a pure-play investment opportunity in a long-term crude oil producing asset. Our current intention is to remain unhedged, providing investors with full exposure to crude oil prices. Indeed, Canadian Oil Sands Trust is one of the most highly correlated investments to the price of crude oil. We are an investment in the long-term potential of crude oil. Syncrude contains about 5 billion barrels of light, sweet, synthetic crude oil on a proved and probable reserves basis alone. Contingent and prospective resources* represent another 4.8 billion barrels and 2.0 billion barrels, respectively. That resource should support growing production for decades.

In the near-term, we expect to grow production by reaching the design capacity of our existing Syncrude facility. That represents upside of about 25 per cent from 2009 volumes. Beyond that, we intend to expand production by optimizing pre-invested infrastructure, thereby reducing capital risk.

Finally, Canadian Oil Sands' management is focused on prudent, disciplined financial management to protect the long-term value for our investors. That includes distributing cash payments when supported by the business.

** See cautionary language in Advisory on inside front cover.*

Oil Sands Principles

In 2009, Canada's largest oil sands producers developed guiding principles that will govern oil sands development into the future. They are listed below along with Syncrude's commitment to these principles.

People

We will provide a safe environment for our employees, contractors and the communities where we operate.

- Safety is Syncrude's priority. Syncrude invests in training, awareness activities, incentives and other initiatives to foster workplace safety.
- Syncrude provides leadership to the Oil Sands Safety Association, which provides training to oil sands workers.

We will provide employment and business opportunities for regional communities, including Aboriginal people.

- Syncrude continues to be a major economic generator for the Wood Buffalo region. In 2009 Syncrude hired about 700 new employees, with most of them from the Wood Buffalo region. Local contractors secured about 25 per cent, or $500 million, of Syncrude's total procurement in 2009, which included more than $100 million spent with regional Aboriginal businesses.

We will consult with directly-affected stakeholders through all stages of our operations.

- Syncrude liaises on a regular basis with First Nation and Métis communities in Wood Buffalo to learn about community needs and concerns, and to share information about projects. Syncrude participates in multi-stakeholder consultation processes dealing with environment and infrastructure issues.

Land

We will mitigate our impact on the land while maintaining regional ecosystems and biodiversity.

We will progressively reclaim all lands affected by oil sands operations, returning them to self-sustaining landscapes.

- Syncrude has reclaimed more than 22 per cent (4,600 hectares) of all the land it has disturbed, with the remainder still actively used in operations.
- Recent studies at Syncrude's reclaimed Gateway Hill area indicate that many different wildlife species are returning to the area, an indication that wildlife activity is similar to that found in undisturbed areas.
- Syncrude is pioneering the development of a 17-hectare fen wetland; the first constructed fen in the oil sands and part of a larger, 50-hectare watershed.

Air

We will design and operate our facilities to ensure that regional air quality continues to exceed provincial air quality objectives.

- Syncrude is constructing a $1.6 billion emissions-reduction project, which should result in a 60 per cent reduction in sulphur compounds from current approved levels once it is operating to specification after 2011.

We will continue to reduce greenhouse gas emissions per barrel of production by improving our energy efficiency and by developing new technologies.

- Syncrude is focusing on energy efficiency to reduce greenhouse gas emissions. Energy efficiency has improved by 17 per cent since 2007.
- Syncrude invests in new technology development to reduce emissions and energy consumption; for example, Syncrude developed Low Energy Extraction and the Optimized Low Energy Process, which reduced the thermal energy requirements for bitumen extraction and corresponding greenhouse gas emissions by about 65 per cent.

Water

We will continue to reduce the amount of fresh water required per barrel of production by improving water recycle rates, using non-potable water sources where feasible, and by developing new technologies.

- Syncrude recycles over 85 per cent of the water used in its processes. Syncrude is working to identify and implement additional re-use opportunities, and is developing new technologies that promise further efficiencies in water use.

We will safeguard the quality of regional surface and groundwater resources.

- Syncrude continues to contribute to the protection of healthy water sources through its participation in the Regional Aquatics Monitoring Program (RAMP). RAMP integrates aquatic monitoring activities across different components of the aquatic environment, different geographical locations and other developments in the Athabasca oil sands region so that long-term trends, regional issues and potential cumulative effects related to oil sands and other development can be identified and addressed.
- Syncrude continues its long-standing practice to not release any process-affected water to the environment.

Four Areas of Strategic Focus

Areas

1. Capital Management

Canadian Oil Sands takes a long-term view in setting our financial plan.

We value maintaining a strong balance sheet to preserve our investment grade credit ratings, support our business through commodity price cycles, and provide capacity to invest in growth opportunities.

We intend to profitably invest a portion of the cash generated in our business into economic oil sands growth opportunities, while returning excess cash to investors through quarterly distributions.

2. Operations

Syncrude Canada Ltd. is the operator of the Syncrude Project, and runs the day-to-day operations.

Imperial Oil, a 25 per cent owner of the project, provides expertise, systems and people under a Management Services Agreement.

Canadian Oil Sands works with Syncrude and its joint venture owners to set the strategic direction for the project and approve significant operational and strategic decisions. Each Syncrude owner is entitled to one vote. Operating decisions require a 51 per cent majority with at least three owners approving, while major growth decisions require unanimous approval.

2009 Progress

- Preserved liquidity and financial flexibility with prudent distribution levels and the refinancing of 2009 debt maturities.
- Maintained a prudent financial position with net debt of $1 billion, or 21 per cent of total capitalization at year end.
- Increased distributions as crude oil prices improved, paying a total of $435 million, or $0.90 per Trust Unit in 2009.
- Reinstated the Premium Distribution, Distribution Re-Investment and Optional Unit Purchase Plan (DRIP) to support the balance sheet during weak economic conditions; suspended DRIP in the second quarter with improvements in financial position and markets.
- Achieved a return on average productive capital employed of about 7 per cent.

- Completed turnaround and modifications on Coker 8-3 complex with aim of improving yield and run length.
- Completed turnaround on Vacuum Distillation Unit.
- Turnaround of the LC finer was deferred to 2010.
- Successfully increased bitumen supply by year-end 2009.
- Syncrude's total recordable injury rate in 2009 was 0.36 compared with a rate of 0.59 for 2008. While the recordable injury rate declined, a fatality occurred in November that marred the improvement in overall safety.

2010 Plan

- Maintain a strong financial position.
- Mitigate impact of trust taxation through tax pools, anticipated to total $2 billion by the end of 2010.
- Convert to a corporation on or about December 31, 2010.

- Complete a turnaround of Coker 8-1, the LC finer and other operating units.
- Improve the reliability of the mining, extraction, and upgrading processes at Syncrude.
- Continue to focus on worker safety by investing in training, awareness activities, and other initiatives. More emphasis will be placed on compliance with procedures and practices.

Beyond 2010

- Manage net debt in anticipation of funding major sustaining capital projects and growth opportunities.
- Maintain discipline of paying a quarterly dividend, the amount varying with changes in crude oil prices, economic conditions, Syncrude's operating performance, and operating and investing obligations.

- Establish sustained design capacity production rates to average 350,000 barrels per day at Syncrude.
- Relocate 2 mine trains at the Aurora North Mine and reconstruct another 2 mine trains at the North Mine.

3. Growth

Near-term production growth is expected as Syncrude ramps up to its facility's current design capacity.

Syncrude has plans to grow productive capacity and broaden its product slate.

Canadian Oil Sands evaluates opportunities to grow its interest in the oil sands through consolidation of Syncrude interests and acquisition of other oil sands related assets.

- Modified Syncrude growth plans based on initial design and scoping engineering work. Syncrude now anticipates producing over 600,000 barrels per day of bitumen, from which upgraded Synthetic Crude Oil production would be about 425,000 barrels per day by 2020.
- Submitted an update report to the regulators further to the conditions for approval received for Aurora South in 1998.

- Further develop plans to add bitumen supply from Aurora South and debottleneck the upgrader.

- Proceed with construction of mine trains at Aurora South and upgrader debottleneck following project sanctioning by Syncrude owners.

4. Sustainability

Sustainable growth remains a key objective for Syncrude and Canadian Oil Sands.

We recognize our operations have an impact on communities, the environment and the Canadian economy, and we are committed to managing our operations in an environmentally and socially responsible manner.

- Improved waterfowl deterrents for tailings ponds.
- Spent $300 million net to the Trust on the Syncrude Emissions Reduction project, achieving about 50 per cent project completion.
- Committed to a set of principles for oil sands development together with Canada's largest oil sands operators (see page 15).
- Canadian Oil Sands' President and CEO engaged Canadians in an ongoing discussion about oil sands development. For more information, visit www.OilSandsNow.ca.
- Syncrude's total economic contribution was more than $5 billion in 2009.

- Continue to work with other oil sands developers to foster a more balanced public discussion of Canada's oil sands and to identify ways to improve sustainable development.
- Construct a pilot project at Syncrude for centrifuge tailings management technology with commercial scale demonstration in 2012.
- Begin the first large-scale reclamation of a fen wetland; Syncrude expects to spend more than $50 million on this project.
- Continue landform development and reclamation of the former Syncrude East Mine area.
- Donate $5 million at the Syncrude level to support community initiatives with a focus on healthcare, education and local recreation.

- Complete the Syncrude Emissions Reduction project by the end of 2011, thereby leading to a 60 per cent reduction in sulphur dioxide emissions.
- Implement measures to reduce energy intensity, thereby reducing carbon dioxide emissions and operating costs.
- Develop the industry's first commercial scale demonstration of an end-pit lake using tailings capped with water.
- Share with industry new technologies to improve and supplement effectiveness of tailings systems.
- Create a fresh water lake on Syncrude's lease 17.
- Continue to support development of large scale carbon capture and storage through participation in the Integrated CO_2 Network (ICO_2N).
- Evaluate new ways to reduce our impact on the environment, focusing on operational reliability and technology development.
- Continue to invest at the Syncrude level to support projects and organizations focused on enhancing the quality of life in local communities.

Management's Discussion & Analysis

The following Management's Discussion and Analysis ("MD&A") was prepared as of February 23, 2010 and should be read in conjunction with the audited Consolidated Financial Statements and notes thereto of Canadian Oil Sands Trust ("Canadian Oil Sands" or the "Trust") for the years ending December 31, 2009 and December 31, 2008. The Trust's financial results have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are reported in Canadian dollars, unless stated otherwise.

ADVISORY – In the interest of providing the Trust's Unitholders and potential investors with information regarding the Trust, including Management's assessment of the Trust's future production and cost estimates, plans and operations, certain statements throughout this MD&A and the related press release contain "forward-looking statements" under applicable securities law. Forward-looking statements in this MD&A include, but are not limited to, statements with respect to: the estimate of recoverable reserves, contingent resources, prospective resources and the estimated reserve life; the timing of the development of the Trust's Arctic assets; the outcome of discussions involving reasonable adjustments for transportation and quality in relation to Crown royalties; intentions with respect to future distributions; expectations regarding bitumen valuation, future Crown royalty payments and the royalty regime to be in place past 2015; the plans regarding conversion to a corporate structure and the timing of seeking Unitholder approval; the expected increase in the Trust's depreciation and depletion rate; the expected impact on the Trust and distributions once conversion to a corporation occurs; the impact that the 2008-2009 economic slowdown will have on costs; the belief that debt covenants will not influence the Trust's liquidity in the foreseeable future or limit the Trust's ability to pay distributions; net debt levels; the belief that operational reliability will improve over time, and with that improvement, that operating costs will be reduced; the expected level of sustaining capital for the next few years and longer term; the expectations regarding bitumen purchases, capital expenditures and operating costs; the cost estimate for the Syncrude Emissions Reduction ("SER") project and the expectation that the SER project will significantly reduce total sulphur dioxide and other emissions; the completion date for the SER project; the expected impact of any current and future environmental legislation, including without limitation, regulations relating to tailings; the expectation that there will not be any material funding increases relative to Syncrude's future reclamation costs or pension funding for the next year; the belief that the Trust will not be restricted by its net debt to total capitalization financial covenant; the expected realized selling price, which includes the anticipated differential to WTI, to be received in 2010 for Canadian Oil Sands' product; the expectation that no crude oil or foreign exchange hedges will be entered into in the future; the potential amount payable in respect of any future income tax liability; all plans regarding future development of the Syncrude Project and in particular the expansion to 600,000 barrels per day of bitumen and 425,000 barrels per day of Synthetic Crude Oil; the level of energy consumption in 2010 and beyond; capital expenditures for 2010; the level of natural gas consumption in 2010 and beyond; the expected price for crude oil and natural gas in 2010; the expected production, revenues and operating costs for 2010; and the anticipated impact that certain factors such as natural gas and oil prices, foreign exchange and operating costs have on the Trust's cash from operating activities and net income. You are cautioned not to place undue reliance on forward-looking statements, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will not occur. Although the Trust believes that the 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 MD&A include, but are not limited to: the impacts of regulatory changes especially as such relate to royalties, taxation, and environmental charges; the impact of technology on operations and processes and how new complex technology may not perform as expected; skilled labour shortages and the productivity achieved from labour in the Fort McMurray area; 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 unanimous joint venture owner approval for major expansions; the variances of stock market activities generally in the global economic environment; market volatility; normal risks associated with litigation, general economic, business and market conditions; regulatory change, and such other risks and uncertainties described from time to time in the reports and filings made with securities regulatory authorities by the Trust. In relation to a reference to resources, there is no certainty that such resources will be commercially viable to produce any portion of the resources. You are cautioned that the foregoing list of important factors is not exhaustive. No assurance can be given that the final legislation implementing the federal tax changes regarding income trusts will not be further changed in a manner which adversely affects the Trust and its Unitholders. Furthermore, the forward-looking statements contained in this MD&A are made as of the date of this MD&A, and unless required by law, the Trust does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

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Business Description

Canadian Oil Sands is an open-ended investment trust which has been generating income from its oil sands investment in the Syncrude Joint Venture ("Syncrude") for over 14 years. The Trust's 36.74 per cent Syncrude working interest is the largest of seven owners and represents the only opportunity for the public to invest directly in the Syncrude Project.

The Syncrude Project (the "Project") is located near Fort McMurray, Alberta and is comprised of oil sands mines, utilities plants, bitumen extraction plants and an upgrading complex that processes bitumen into a high-quality, low sulphur, light Synthetic Crude Oil ("SCO"). The bitumen is open-pit mined from oil sands leases located in the Athabasca oil sands deposit. Syncrude Canada Ltd. ("Syncrude Canada") operates the Project on behalf of the Syncrude owners. Each joint venture owner has an undivided interest in the assets of the Project, takes its production in kind and funds its proportionate share of Syncrude's operating and capital expenditures on a daily basis. Oversight of Syncrude Canada is provided by a Syncrude Joint Venture Management Committee and various management sub-committees as well as Syncrude Canada's Board of Directors, all of which are staffed by representatives of the Syncrude owners. In particular, the Management Committee oversees and approves significant Syncrude expenditures and long-term strategies.

Syncrude's facilities have the design capability to produce approximately 375,000 barrels per day ("bpd") 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. 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 bpd 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.

Based on evaluations performed in accordance with the COGE Handbook by our qualified independent petroleum reserve evaluators effective December 31, 2009, Canadian Oil Sands estimates Syncrude's proved plus probable reserves of 5.1 billion barrels (1.9 billion barrels net to the Trust), best estimate contingent resources of 4.8 billion barrels (1.8 billion barrels net to the Trust) and best estimate prospective resources of 2.0 billion barrels (0.7 billion barrels net to the Trust). Based on current productive capacity of approximately 129 million barrels annually, or 47 million barrels net to the Trust, Syncrude's estimated proved plus probable reserve life is approximately 40 years.

More information regarding Canadian Oil Sands' reserves and resources can be found in the "Reserves Data and Other Information" section in our 2009 Annual Information Form ("AIF") dated March 22, 2010 at www.sedar.com or on our website at www.cos-trust.com.

Executive Overview

Canadian Oil Sands funds its share of Syncrude's operations and capital expenditures, along with our own administrative and financing costs, distributions and acquisitions through cash generated from the sale of Syncrude production and debt and equity financing.

The Trust's net income, cash from operating activities and distributions paid to Unitholders are highly dependent on the net selling price received for SCO, production and sales volumes, operating costs and other expenses, including Crown royalties. The price we receive for our product, net of crude oil purchases and transportation expense reflects the realized selling price at the Syncrude plant gate for our sales of SCO production. Historically, our selling price has correlated closely to the Canadian dollar denominated West Texas Intermediate ("WTI") benchmark oil price and has been impacted by movements in United States ("U.S.")/Canadian foreign exchange rates. Supply and demand fundamentals also create volatility in crude oil prices and impact the weighted-average price differential of our SCO product relative to Canadian dollar WTI prices (the "price differential"). This price differential can quickly move from a premium to a discount depending on the supply and demand dynamics in the market.

Production volumes reflect the capacity of the Syncrude facility and the reliability of its operations. The process of mining, extracting and upgrading bitumen is a technical and complex operation that resembles a manufacturing process rather than a conventional oil development. Regular maintenance of operating units is required. Unplanned outages of units can and do occur, and these outages usually affect costs and production volumes, and consequently, revenues and operating costs. For the Syncrude Project, reliability is a critical success factor as costs are largely fixed. If the facilities can process additional barrels, the per barrel costs are reduced and the economics of the Project are enhanced. Further, reduced reliability may increase repair or maintenance costs, and along with lower production volumes, results in higher per barrel operating costs. Syncrude's operations are subject to a number of risks that are discussed in further detail in the Risk Management section of this MD&A.

The Trust's production volumes differ from its sales volumes due to changes in inventory.

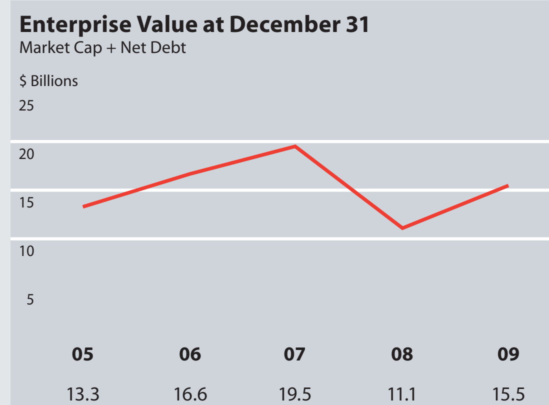
More information regarding Canadian Oil Sands, including our AIF, is available at www.sedar.com or on our website at www.cos-trust.com.

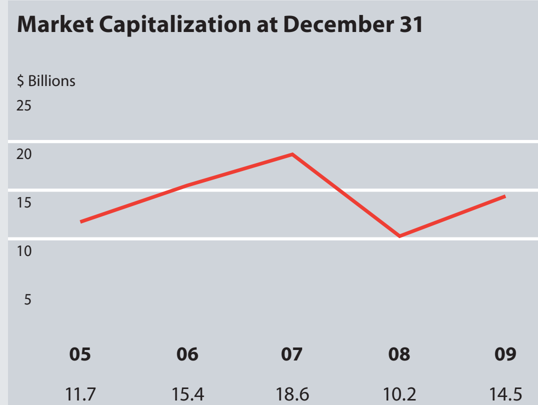
Review of Syncrude Operations

Syncrude's annual production in 2009 totalled 102.2 million barrels, or 280,000 barrels per day, a decrease of 3.6 million barrels from the prior year. Production, net to the Trust, totalled 37.5 million barrels in 2009 compared with 38.9 million barrels in 2008.

Syncrude's 2009 production was negatively affected by an extended turnaround and modification work on Coker 8-3 and related units, which began in mid-March and was completed in early June. As well, unplanned outages in the mining operations, Coker 8-1, and the Vacuum Distillation Unit, and first quarter bitumen constraints reduced 2009 production. By comparison, production in 2008 was impacted by the planned turnarounds of Coker 8-2 and Coker 8-1, bitumen production constraints and a disruption in several operating units during the first quarter.

Operating costs during 2009 averaged $35.29 per barrel, which were in line with $35.26 per barrel in 2008. Lower natural gas prices and lower bitumen purchases by Syncrude in 2009 reduced year-over-year operating costs. However, these cost reductions were offset by increased costs related to additional maintenance and mining activities at Syncrude, and additional costs for contractors and wages for Syncrude staff. Operating costs are discussed more fully in the "Operating Costs" section of this MD&A.





Business Environment

Prices for U.S. dollar WTI oil strengthened during 2009 after reaching lows of $34 per barrel early in the year. Compared to 2008, however, commodity prices were substantially lower with U.S. dollar WTI prices, averaging $62.09 per barrel in 2009 versus $99.75 per barrel in 2008. Partially offsetting the oil price rise during the course of the year, the Canadian dollar also increased, closing at $0.96 U.S./Cdn at December 31, 2009 versus $0.82 U.S./Cdn at December 31, 2008.

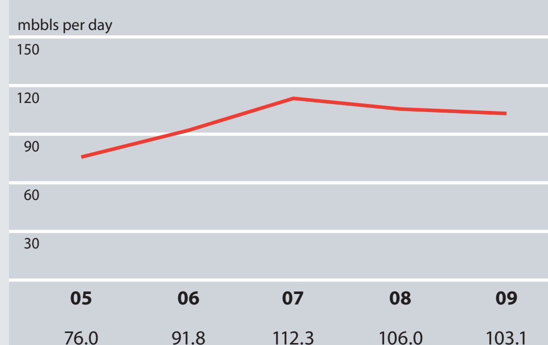
The deterioration of economic conditions during late 2008 and early 2009 resulted in the deferral or cancellation of several oil sands projects in the Fort McMurray region. With the gradual improvement in market conditions during 2009, announcements have been made that indicate development of some of these projects is expected to resume. While it is reasonable to expect any continued industry slowdown to lower costs over time through more competitive access to labour and materials, we have yet to experience material declines in production costs. A significant portion of costs in the oil sands industry is associated with labour, which responds much slower to changing market conditions, particularly as industry-wide labour agreements exist that stipulated wage increases in 2009. We continue to believe the most significant factor in achieving cost reductions at Syncrude is better operational reliability.

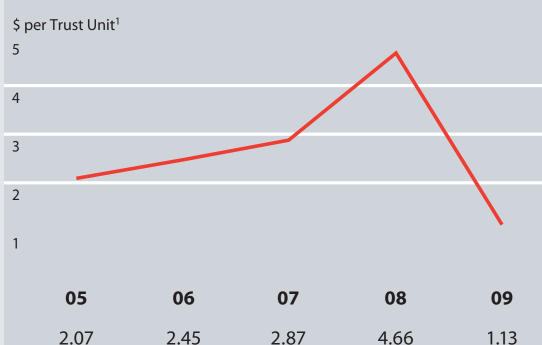
Economic conditions in 2009 made it a difficult year for the refining sector, which purchases the Trust's SCO product. The amount of crude processed by U.S. refineries was at its lowest levels for the decade as the economic recession weakened demand for refined products, which put pressure on refining margins.

Selected Annual Information

($ millions, except per Trust Unit and volume amounts)	**2009**	2008	2007
Revenues, after crude oil purchases and transportation expense	**$ 2,615**	$ 4,169	$ 3,250
Net income	**432**	1,523	743
Per Trust Unit, Basic	**0.89**	3.17	1.55
Per Trust Unit, Diluted	**0.89**	3.16	1.54
Cash from operating activities	**547**	2,241	1,377
Per Trust Unit	**1.13**	4.66	2.87
Total assets	**6,953**	6,933	7,271
Net debt [1]	**1,041**	979	950
Total other long-term liabilities [2]	**493**	334	354
Unitholder distributions per Trust Unit	**0.90**	3.75	1.65
Syncrude SCO production *(millions of barrels)*	**102**	106	111

1 *Long-term debt less cash and cash equivalents. Non-GAAP measure.*
2 *This balance includes employee future benefits and other liabilities as well as the Trust's asset retirement obligation.*





[1] Non-GAAP measure

	2009	2008	2007
Average net realized SCO selling price before currency hedging *($/bbl)* [1]	**$ 69.37**	$ 106.81	$ 79.02
Average West Texas Intermediate *(U.S.$/bbl)*	**62.09**	99.75	72.36
Premium (Discount) price differential *(Cdn$/bbl)* [1]	**(1.08)**	1.94	1.63
Average foreign exchange rates *(U.S.$/Cdn$)*	**0.88**	0.94	0.93

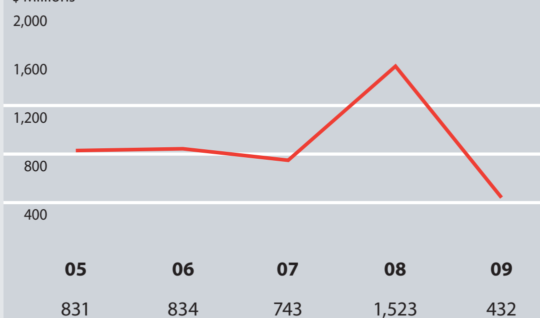
1 *Based on a volume weighted-average calculation.*

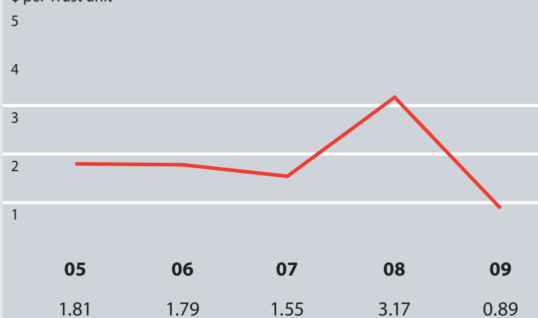
Net Income per Barrel

($ per barrel) [1]	2009	2008	2007
Revenues after crude oil purchases and transportation expense	**$ 69.47**	$ 107.47	$ 79.29
Operating costs	**(35.29)**	(35.26)	(25.23)
Crown royalties	**(6.06)**	(15.44)	(11.83)
Netback	**$ 28.12**	$ 56.77	$ 42.23
Non-production costs	**(3.75)**	(2.00)	(1.54)
Administration and insurance	**(0.87)**	(0.61)	(0.69)
Interest, net	**(2.45)**	(1.75)	(2.08)
Depreciation, depletion and accretion	**(15.16)**	(11.46)	(8.56)
Goodwill impairment	**(1.38)**	–	–
Foreign exchange gain (loss)	**4.28**	(4.09)	2.86
Earnings before taxes	**8.79**	36.86	32.22
Future income tax recovery (expense) and other	**2.67**	2.39	(14.12)
Net income per barrel	**$ 11.46**	$ 39.25	$ 18.10
Sales volumes *(mmbbls)* [2]	**37.6**	38.8	41.0

1 *Unless otherwise specified, net income and other per barrel measures in this MD&A have been derived by dividing the relevant revenue or cost item by the sales volumes in the period.*
2 *Sales volumes, net of purchased crude oil volumes.*

The decrease in revenues for 2009 relative to 2008 was due to lower SCO selling prices and lower sales volumes. The increase in revenues for 2008 relative to 2007 was primarily due to higher SCO selling prices partially offset by lower 2008 sales volumes. The lower 2009 realized SCO selling price versus 2008 and 2007 was primarily due to lower U.S. dollar WTI prices for crude oil.





Net income decreased in 2009 versus 2008 primarily as a result of decreased revenues and asset impairment and goodwill charges of $148 million after tax on the Trust's Arctic assets. Net income increased in 2008 versus 2007 primarily as a result of increased revenues and lower future income taxes, offset by higher operating costs, Crown royalty charges and depreciation, depletion and accretion ("DD&A"). In 2007, net income was reduced by a one time $701 million future income tax charge following the substantive enactment of trust taxation.

Operating costs in 2009 totalled $1,328 million versus $1,368 million in 2008, but were higher than the $1,034 million recorded in 2007. The increase in costs since 2007 reflects rising costs for materials and labour in the Fort McMurray area and additional expenses incurred to move more overburden and oil sands. Reliability issues in both the mining and upgrading operations also have increased operating costs over the last two years. Natural gas prices have experienced significant volatility, further impacting total operating costs. Additional information regarding operating costs for 2009 relative to 2008 is provided in the "Operating Costs" section of this MD&A.

In 2009, Canadian Oil Sands incurred $228 million in Crown royalties versus $599 million in 2008 and $485 million in 2007. The decrease in Crown royalty expense in 2009 was primarily due to decreased commodity prices. The increase in 2008 relative to 2007 was due to higher revenues. Crown royalties in 2009 also reflect the transition to a bitumen-based royalty, while 2008 and 2007 royalties were paid on a SCO basis. Further information on Crown royalties is provided in the "Crown Royalties" section of this MD&A.

Foreign exchange ("FX") gains and losses during the years 2007 to 2009 were primarily due to foreign exchange rate fluctuations on the revaluation of U.S. dollar denominated debt into Canadian dollars. Those fluctuations resulted in an FX gain on long-term debt of $200 million in 2009, an FX loss of $204 million in 2008 and an FX gain of $153 million in 2007.

DD&A expense in 2009 totalled $570 million versus $444 million for 2008 and $351 million for 2007. Total DD&A was impacted by changes in production volumes and changes in the per barrel depreciation and depletion ("D&D") rate, and the 2009 amount includes impairment charges on the Trust's Arctic natural gas assets. Further information on the impairment charge is provided in the "Impairment of Arctic Assets" section of this MD&A.

Cash from operating activities in 2009 totalled $547 million, or $1.13 per Unit, compared with $2,241 million, or $4.66 per Unit in 2008, and $1,377 million, or $2.87 per Unit in 2007. Changes in revenues, operating expenses and Crown royalties were the most significant factors influencing cash from operating activities. Changes in non-cash working capital also impacted cash from operating activities as follows:

For the years ended December 31	**2009**	2008	2007
Operating activities:			
Accounts receivable	**$ (170)**	$ 195	$ (135)
Inventories	**(40)**	9	(18)
Prepaid expenses	**(2)**	1	1
Accounts payable and accrued liabilities	**–**	(5)	(15)
Less: A/P and A/R changes reclassed to investing and other	**5**	2	2
Change in operating non-cash working capital	**$ (207)**	$ 202	$ (165)

Working capital changes and the resulting impact on our cash from operating activities are difficult to predict due to many variables. Non-cash working capital varies on a period-by-period basis as a result of the timing and settlement of accounts receivable and accounts payable balances, and is impacted by a number of factors including changes in revenue, operating expenses, Crown royalties and changes in inventory balances.

Net debt, comprised of long-term debt less cash and cash equivalents, increased to $1,041 million at December 31, 2009 from $979 million at December 31, 2008 as capital expenditures, Unitholder distributions, and debt repayments exceeded cash from operating activities, proceeds from the debt issuance, and foreign exchange gains. Relative to December 31, 2007, net debt was $91 million higher at December 31, 2009, mainly as a result of cash from operating activities and a new debt issuance, less Unitholder distributions.

Canadian Oil Sands' Asset Retirement Obligation ("ARO") liability, which represents the present value of our share of the estimated environmental reclamation costs of the Syncrude Project, totalled $389 million at the end of 2009, $235 million in 2008 and $226 million in 2007. Canadian Oil Sands' 2009 ARO rose over 2008 as a result of revisions to cost estimates, the expected timing of reclamation expenditures, and revised material movement assumptions to reflect mine plan changes. The increase in 2008 over 2007 was the result of cost inflation adjustments.

The Trust paid distributions totalling $0.90 per Unit in 2009 compared with $3.75 per Unit in 2008 and $1.65 per Unit in 2007. The Trust's distribution strategies are described in the "Unitholder Distributions" section of this MD&A.

Non-GAAP Financial Measures

In this MD&A 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.

Summary of Quarterly Results

($ millions, except per Trust Unit and volume amounts)			2009		
	Q1	**Q2**	**Q3**	**Q4**	**Annual**
Revenues [1]	**512**	**467**	**773**	**863**	**2,615**
Net income	**43**	**46**	**247**	**96**	**432**
Per Trust Unit, Basic	**0.09**	**0.10**	**0.51**	**0.20**	**0.89**
Per Trust Unit, Diluted	**0.09**	**0.10**	**0.51**	**0.20**	**0.89**
Cash from operating activities	**50**	**(44)**	**213**	**328**	**547**
Per Trust Unit [2]	**0.10**	**(0.09)**	**0.44**	**0.68**	**1.13**
Unitholder distributions	**72**	**73**	**121**	**169**	**435**
Per Trust Unit	**0.15**	**0.15**	**0.25**	**0.35**	**0.90**
Daily average sales volumes *(bbls)* [3]	**102,825**	**75,553**	**114,544**	**119,287**	**103,129**
Net realized selling price *($/bbl)* [4]	**55.32**	**67.92**	**73.31**	**78.67**	**69.47**
Operating costs *($/bbl)* [5]	**38.78**	**50.23**	**27.80**	**30.18**	**35.29**
Purchased natural gas price *($/GJ)*	**4.96**	**3.09**	**2.90**	**4.33**	**3.95**
West Texas Intermediate *(avg U.S.$/bbl)* [6]	**43.31**	**59.79**	**68.24**	**76.13**	**62.09**
Foreign exchange rates *(U.S.$/Cdn$)*:					
Average	**0.80**	**0.86**	**0.91**	**0.95**	**0.88**
Quarter-end	**0.79**	**0.86**	**0.93**	**0.96**	**0.96**

			2008		
	Q1	Q2	Q3	Q4	Annual
Revenues [1]	907	1,177	1,381	704	4,169
Net income	298	497	604	124	1,523
Per Trust Unit, Basic	0.62	1.04	1.25	0.26	3.17
Per Trust Unit, Diluted	0.62	1.04	1.25	0.26	3.16
Cash from operating activities	441	413	921	466	2,241
Per Trust Unit [2]	0.92	0.86	1.91	0.97	4.66
Unitholder distributions	360	481	602	361	1,804
Per Trust Unit	0.75	1.00	1.25	0.75	3.75
Daily average sales volumes *(bbls)* [3]	99,181	97,744	116,656	110,197	105,986
Net realized selling price *($/bbl)* [4]	100.41	131.32	127.55	69.40	106.91
Operating costs *($/bbl)* [5]	35.93	41.92	32.15	32.10	35.26
Purchased natural gas price *($/GJ)*	7.30	9.38	7.86	6.41	7.66
West Texas Intermediate *(avg U.S.$/bbl)* [6]	97.82	123.80	118.22	59.08	99.75
Foreign exchange rates *(U.S.$/Cdn$)*:					
Average	1.00	0.99	0.96	0.83	0.94
Quarter-end	0.97	0.98	0.94	0.82	0.82

1 *Revenues after crude oil purchases and transportation expense.*
2 *Cash from operating activities per Trust Unit is a non-GAAP measure that is derived from cash from operating activities reported on the Trust's Consolidated Statements of Cash Flows divided by the weighted-average number of Trust Units outstanding in the period, as used in the Trust's net income per Unit calculations.*
3 *Daily average sales volumes after crude oil purchases.*
4 *Net realized SCO selling price after foreign currency hedging.*
5 *Derived from operating costs as reported on the Trust's Consolidated Statements of Income and Comprehensive Income, divided by the sales volumes during the period.*
6 *Pricing obtained from Bloomberg.*

During the last eight quarters, the following items have had a significant impact on the Trust's financial results:

- fluctuations in U.S. dollar WTI oil prices significantly impacted the Trust's revenues, Crown royalties, net income and cash from operating activities;
- planned and unplanned maintenance activities as well as turnarounds have impacted quarterly production volumes, sales revenues, and operating costs;
- net income was reduced by $148 million in the fourth quarter of 2009 due to an impairment charge and goodwill write-down on the Arctic natural gas assets;
- U.S. to Canadian dollar exchange rate fluctuations have resulted in foreign exchange gains and losses on the revaluation of U.S. dollar denominated debt and have impacted commodity pricing; and
- tax rate reductions substantively enacted in the first quarter of 2009 resulted in additional future income tax recoveries of $63 million.

Quarterly variances in 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, future income tax changes, and by asset and goodwill impairment charges.

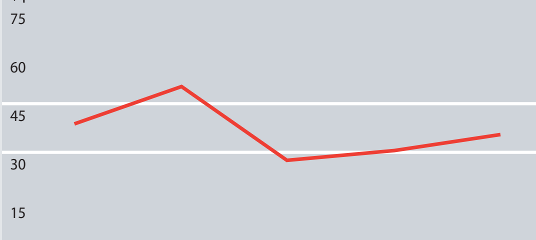
A large proportion of operating costs are fixed and, as such, unit operating costs are highly variable to production volumes. While the supply and demand balance for crude oil affects selling prices, the impact of this equation is difficult to predict and quantify and has not displayed significant seasonality. Maintenance and turnaround activities are typically scheduled to avoid the winter months; however, the exact timing of unit shutdowns cannot be precisely scheduled, and unplanned outages may occur. Accordingly, production levels may not display reliable seasonal 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. 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.

Canadian Oil Sands' unaudited fourth quarter 2009 results were discussed and analyzed in our MD&A released on January 28, 2010 and filed with the Trust's January 28, 2010 press release, which is available on our website at www.cos-trust.com or at www.sedar.com.

2009 Quarterly Daily Average Sales Volumes

Q1	Q2	Q3	Q4	Annual
102.8	75.6	114.5	119.3	103.1

2009 Quarterly Operating Costs



Q1	Q2	Q3	Q4	Annual
38.78	50.23	27.80	30.18	35.29

Review of Financial Results

Revenues, after Crude Oil Purchases and Transportation Expense

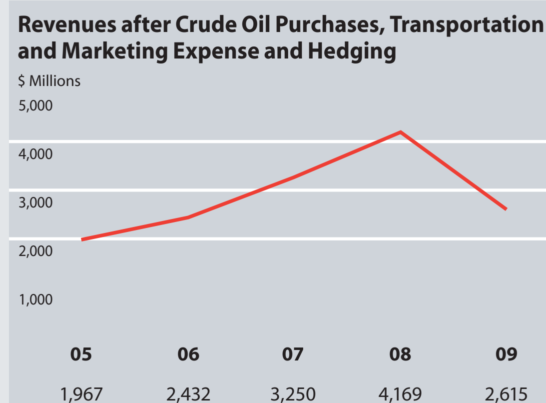
($ millions)	2009	2008	$ Change	% Change
Sales revenue	**$ 2,779**	$ 4,543	$ (1,764)	(39)
Crude oil purchases	**(133)**	(337)	204	(61)
Transportation expense	**(31)**	(37)	6	(16)
	$ 2,615	$ 4,169	$ (1,554)	(37)
Sales volumes *(mmbbls)* [1]	**37.6**	38.8	(1.2)	(3)
($ per barrel)				
Realized selling price before hedging [2]	**$ 69.37**	$ 106.81	$ (37.44)	(35)
Currency hedging gains	**0.10**	0.10	–	–
Net realized selling price	**$ 69.47**	$ 106.91	$ (37.44)	(35)

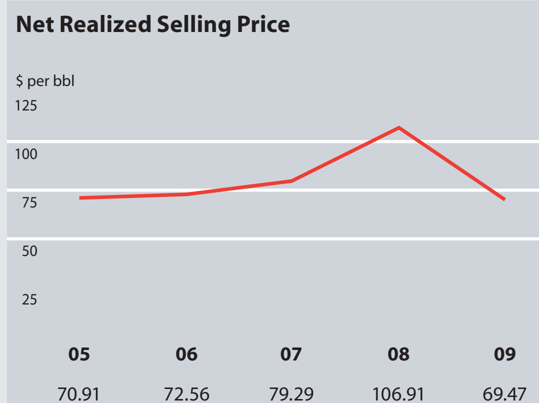
1 Sales volumes, net of purchased crude oil volumes.
2 Sales revenue, after crude oil purchases and transportation expense divided by sales volumes, net of purchased crude oil volumes. Calculation does not include sulphur sales.

The decrease in annual sales revenue in 2009 versus 2008 was due to lower realized selling prices for SCO as well as a decline in sales volumes. WTI prices averaged U.S. $62.09 per barrel in 2009 versus U.S. $99.75 per barrel in 2008. The impact of the lower 2009 U.S. dollar WTI price was offset somewhat by a weaker Canadian dollar, which averaged $0.88 U.S./Cdn for 2009 versus $0.94 U.S./Cdn for 2008.

Our net realized SCO selling price after currency hedging gains averaged $69.47 per barrel in 2009, a 35 per cent decrease from $106.91 per barrel recorded in 2008. In addition to lower WTI crude oil prices, the decrease reflects negative price differentials. We realized a discount to average Canadian dollar WTI of $1.08 per barrel in 2009 versus a premium of $1.94 per barrel in 2008. The differential is dependent upon the supply and demand for SCO, and accordingly, can change quickly depending upon the short-term supply and demand dynamics in the market and pipeline availability for transporting crude oil.

Canadian Oil Sands sales volumes averaged 103,000 barrels per day in 2009 versus an average of 106,000 barrels per day for 2008. Sales volumes for 2009 were impacted by a longer than expected planned turnaround and modifications on the Coker 8-3 complex, reliability issues in mining and upgrading operations, and by constrained bitumen production during the first quarter. Sales volumes in 2008 were impacted by the scheduled turnarounds of Cokers 8-2 and 8-1, operational difficulties during the first quarter and bitumen production constraints throughout the year.





Operating Costs

The following table breaks down operating costs into their major components and shows bitumen costs both on a per barrel of bitumen and a per barrel of SCO produced basis. The information allocates costs to bitumen production and upgrading based on deductibility for bitumen royalty purposes. In order to allow time to fully develop an allocation methodology for common costs, the Syncrude Royalty Amending Agreement provides for allowed bitumen costs, before internal fuel allocation, to be 64.5 per cent of Syncrude total operating costs until December 31, 2010. Prior year information has been reclassified to conform to the new format.

	2009		2008	
($ per barrel)	**Bitumen**	**SCO**	Bitumen	SCO
Bitumen production [1]	**$ 19.32**	**$ 22.81**	$ 19.18	$ 22.19
Internal fuel allocation [3]	**2.32**	**2.74**	4.04	4.67
Total produced bitumen costs	**$ 21.64**	**$ 25.55**	$ 23.22	$ 26.86
Upgrading costs [2]		**12.53**		12.27
Less: Internal fuel allocation to bitumen [3]		**(2.74)**		(4.67)
Bitumen purchases		**0.32**		1.04
Total Syncrude operating costs		**$ 35.66**		$ 35.50
Canadian Oil Sands' adjustments [4]		**(0.37)**		(0.24)
Total operating costs		**$ 35.29**		$ 35.26
(thousands of barrels per day)	**Bitumen**	**SCO**	Bitumen	SCO
Syncrude production volumes [5]	**330**	**280**	334	289

1 Prior year information has been restated for comparative purposes to conform to a revised presentation of costs.
2 Upgrading costs include the production and ongoing maintenance costs associated with processing and upgrading of bitumen to SCO. It also includes the costs of major upgrading equipment turnarounds and catalyst replacement, all of which are expensed as incurred.
3 Natural gas prices averaged $3.95 per GJ and $7.66 per GJ in 2009 and 2008, respectively.
4 Canadian Oil Sands' adjustments mainly pertain to actual reclamation costs, Syncrude-related pension costs, as well as the inventory impact of moving from production to sales as Syncrude reports per barrel costs based on production volumes and the Trust reports based on sales volumes.
5 Syncrude production volumes include the impact of processed purchased bitumen volumes.

($ per barrel of SCO)	**2009**	2008	$ Change	% Change
Production costs	**$ 31.39**	$ 28.01	$ 3.38	12
Purchased energy	**3.90**	7.25	(3.35)	(46)
Total operating costs	**$ 35.29**	$ 35.26	$ 0.03	0

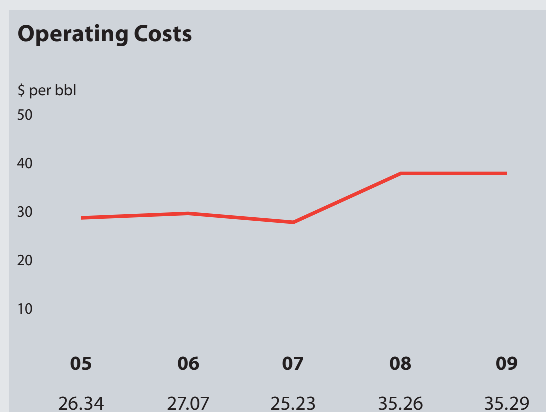
(GJs per barrel of SCO)	**2009**	2008	Change	% Change
Purchased energy consumption	**0.99**	0.95	0.04	4

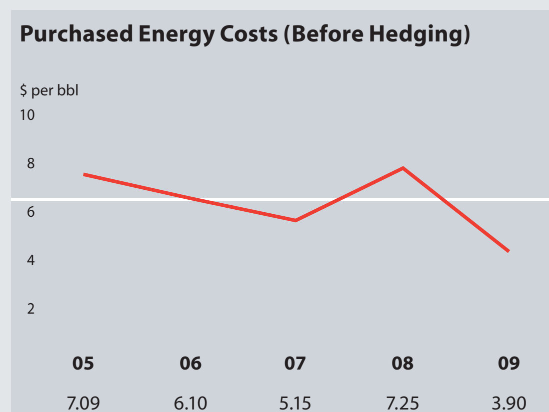
Operating costs were $1,328 million in 2009, averaging $35.29 per barrel, a decrease of $40 million from 2008. The decrease was primarily due to:

- lower energy costs as a result of a decline in natural gas prices to $3.95 per gigajoule ("GJ") in 2009 compared with $7.66 per GJ in the same period of 2008; and
- a decrease in the value of bitumen purchased by Syncrude to $33 million in 2009 ($12 million net to the Trust) compared with $110 million during the same period of 2008 ($40 million net to the Trust).

These cost reductions were offset by:

- additional maintenance activities at Syncrude on mining, upgrading, utilities and extraction facilities in 2009 relative to 2008;
- additional mining activities, including increased material movement in 2009 relative to 2008;
- increased costs for contractors and wages for Syncrude staff; and
- an increase in the value of Syncrude's long-term incentive plans in 2009 versus 2008. A portion of Syncrude's long-term incentive plans is based on the market return performance of several Syncrude owners' shares and units, the market performance of which was stronger at the end of 2009 relative to the end of 2008.





Non-Production Costs

Non-production costs consist primarily of development expenditures related to capital programs, which are expensed, such as: commissioning costs; pre-feasibility engineering, technical and support services; research and development ("R&D"); and regulatory and stakeholder consultation expenditures. Non-production costs can vary depending on the number of projects underway and the stage of development of the projects. Non-production costs totalled $141 million in 2009, an increase of $63 million from 2008, primarily as a result of additional development activities undertaken with respect to future mine train relocations, initiatives to manage tailings ponds, electrostatic precipitator fire repairs and planning for growth initiatives.

Crown Royalties

Crown royalties decreased to $228 million, or $6.06 per barrel, in 2009 from $599 million, or $15.44 per barrel in 2008. The decrease was primarily due to lower deemed bitumen revenues resulting from lower commodity prices and higher capital costs.

Under the Generic Oil Sands Royalty Regime in place in Alberta during 2008, Syncrude's Crown royalty was calculated as the greater of one per cent of gross plant gate revenue before hedging, or 25 per cent of net revenues, calculated as gross plant gate revenue before hedging, less allowed Syncrude operating, non-production and capital costs.

Pursuant to agreements reached in 2008 with the Alberta government, Syncrude's Crown royalties after 2008 are based on deemed bitumen revenues less allowed bitumen operating, non-production and capital costs. Additional amounts for upgrader growth capital deducted in computing royalties for prior years, and transition payments for the period 2010 to 2015, are also factored into the royalty calculation. For 2009 Syncrude was subject to royalties based on a net 25 per cent bitumen royalty rate.

In 2009, under the Syncrude Bitumen Royalty Option Agreement, Syncrude transitioned to paying Crown royalties based on bitumen production rather than on the production of SCO. In addition, costs related to capital expenditures that were deducted in computing Crown royalties on SCO in prior years, and are no longer associated with the royalty base, are recaptured by the Crown. The recapture amounts total approximately $5 billion ($1.8 billion net the Trust) and will reduce deductible costs in calculating Crown royalties over the 25-year period from 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.

Under the Syncrude Amended Royalty Agreement, beginning in 2009, the Syncrude owners pay the greater of 25 per cent of net deemed bitumen revenues, or one per cent of gross deemed bitumen 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 in respect of the following periods:

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

The Syncrude 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 owners 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 and its owners' interpretation of the Syncrude Amended Royalty Agreement, and their estimates of the appropriate quality, transportation and handling adjustments. These adjustments are different than those provided under the Alberta government's generic bitumen valuation methodology. Based on discussions to date among the parties to the Syncrude Amended Royalty Agreement, the royalty amount for 2009 net to Canadian Oil Sands is about $40 million less than the amount calculated under the generic bitumen valuation methodology. The Syncrude owners 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.

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

Copies of the Syncrude Amended Royalty Agreement and the Syncrude Bitumen Royalty Option Agreement are available on our website at www.cos-trust.com under Regulatory Filings or at www.sedar.com.

Interest Expense, Net

($ millions)	**2009**	2008	$ Change	% Change
Interest expense on long-term debt	**$ 94**	$ 76	$ 18	24
Interest income and other	**(1)**	(8)	7	(88)
Interest expense, net	**$ 93**	$ 68	$ 25	37

The Trust's interest expense on its long-term debt increased in 2009 as a result of increased average net debt outstanding and a higher effective interest rate from a U.S. $500 million 7.75 per cent bond financing during the year.

Depreciation, Depletion and Accretion Expense

($ millions)	**2009**	2008	$ Change	% Change
Depreciation and depletion expense	**$ 423**	$ 430	$ (7)	(2)
Impairment of Arctic assets	**130**	–	130	100
Accretion expense	**17**	14	3	21
	$ 570	$ 444	$ 126	28

Oil sands assets are depreciated and depleted over their estimated remaining lives by using a unit-of-production method based on estimated reserve life.

D&D expense in 2009 was $123 million higher compared with 2008 as a result of an impairment charge on the Trust's Arctic natural gas assets. D&D expense on the Trust's Syncrude assets was relatively unchanged as a result of a slight increase in the D&D rate offset by lower production during the year.

Refer to "Impairment of Arctic Assets" section of this MD&A for a discussion related to the impairment of Arctic natural gas assets.

Asset Retirement Obligation

Canadian Oil Sands and each of the other Syncrude owners are liable for their share of ongoing environmental obligations related to the ultimate reclamation of the Syncrude properties on abandonment. The Trust estimates reclamation expenditures will be made over approximately the next 60 years and has applied an average credit-adjusted risk-free discount rate of six per cent (2008-six per cent) in deriving the asset retirement obligation.

Syncrude's upgrader facilities have indeterminate lives and therefore the fair values of the related asset retirement obligations cannot be reasonably determined. 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 facilities and the sulphur blocks will be recognized in the year in which the settlement amounts and dates can be reasonably estimated.

Canadian Oil Sands' ARO liability, which represents the present value of our share of the estimated environmental reclamation costs of the Syncrude Project, increased to $389 million at December 31, 2009 versus $235 million at December 31, 2008. The increase is a result of revisions to cost estimates, an acceleration of expected expenditures, and revised material movement assumptions to reflect mine plan changes. The total undiscounted estimated cash flows required to settle the Trust's share of Syncrude's obligation increased to $903 million at December 31, 2009 (December 31, 2008 – $774 million).

The reclamation expenditures will be funded from Canadian Oil Sands' cash from operating activities and reclamation trust. In addition to this regular funding for reclamation expenditures, Canadian Oil Sands deposits $0.1322 per barrel of production attributable to its Working Interest to a reclamation trust established for the purpose of funding the operating subsidiary's share of environmental and reclamation obligations. As at December 31, 2009, the balance of the reclamation trust was $48 million (December 31, 2008 – $43 million).

The Trust has posted letters of credit with the Province of Alberta in the amount of $70 million (December 31, 2008 – $67 million) to secure its pro rata share of the reclamation obligations of the Syncrude participants.

Foreign Exchange (Gains) Losses

($ millions)	**2009**	2008
Foreign exchange (gain) loss-long term debt	**$ (200)**	$ 204
Foreign exchange (gain) loss-other	**39**	(45)
Total foreign exchange (gain) loss	**$ (161)**	$ 159

FX gains and losses are primarily the result of changes in the Canadian dollar value of our U.S. dollar denominated long-term debt caused by fluctuations in U.S. and Canadian dollar exchange rates.

During 2009, the FX gains on long-term debt resulted from the strengthening of the Canadian dollar relative to the U.S. dollar to $0.96 U.S./Cdn at December 31, 2009 from $0.82 U.S./Cdn at December 31, 2008. At December 31, 2009 the Trust had $1,124 million in U.S. dollar debt outstanding, compared to $874 million at December 31, 2008. FX losses on long-term debt in 2008 were due to the weakening of the Canadian dollar relative to the U.S. dollar to $0.82 U.S./Cdn at December 31, 2008 from $1.01 U.S./Cdn at December 31, 2007.

Other FX gains and losses were primarily the result of the settlement of U.S. dollar denominated receivables and the revaluation of U.S. dollar cash balances. In addition to the foreign exchange gain on long-term debt, Canadian Oil Sands reported a foreign exchange loss of $39 million on other items during 2009. This loss was primarily due to a foreign exchange loss of $19 million on U.S. dollar cash held by Canadian Oil Sands from proceeds of the U.S. $500 million financing in May subsequently used to retire U.S. $250 million of debt in August. In 2008, the Trust realized FX gains of $45 million primarily on the settlement of U.S. dollar denominated accounts receivable and cash balances.

Future Income Tax and Other

Canadian Oil Sands' future income taxes on its Consolidated Balance Sheet represent the net difference between tax values and accounting values, referred to as temporary differences, tax-effected at substantively enacted tax rates expected to apply when the differences reverse. In 2009, Canadian Oil Sands recorded future income tax recoveries of $38 million on the reversal of temporary differences and $63 million on enactment of a tax rate reduction, for a total recovery of $101 million. In 2008, Canadian Oil Sands recorded a future income tax recovery of $93 million on the reversal of temporary differences.

During 2009, federal income tax legislation and regulations to adjust the deemed provincial component of the tax on distributions from income and royalty trusts in 2011 was passed. Under this legislation, the provincial component of the tax applicable to Canadian Oil Sands was reduced from 13 per cent to 10 per cent. A future income tax recovery of $63 million was recorded in 2009 on the substantive enactment of the legislation and regulations.

With the taxation of income trusts effective January 1, 2011, Canadian Oil Sands has implemented a plan to convert to a corporation on or around December 31, 2010. Further information is provided in the "Corporate Conversion" section of this MD&A.

Impairment of Arctic Assets

During 2009, the Trust assessed its Arctic assets and related goodwill for impairment. Along with recent technological innovations that have increased access to natural gas shale resources, there continue to be delays in Arctic developments. The Trust has a "carried interest" in its Arctic resource which reduces risk; however, resource development is dependent on uncertain operator approvals.

As a result of these uncertainties, the Trust extended its assumed timing for development of the Arctic assets. Based on a net present value analysis which assumes a deferred project start date, additional depreciation and depletion of $130 million ($96 million after tax) was recorded by the Trust. A goodwill impairment of $52 million was also recorded. The remaining net book value recorded by the Trust for the Arctic natural gas assets is $35 million and net income during the quarter was reduced by $148 million after tax ($182 million pre-tax).

Corporate Conversion

In 2009, legislation for the conversion of income and royalty trusts into corporations was enacted. This legislation is designed to permit income and royalty trusts to convert into public corporations without triggering adverse Canadian tax consequences to the trusts or their unitholders. A number of income and royalty trusts in Canada have either converted or announced their intention to convert to a corporate structure.

On January 28, 2010, Canadian Oil Sands' Board of Directors approved converting to a corporate structure on or about December 31, 2010. Canadian Oil Sands plans to bring the conversion plan forward for Unitholder approval in conjunction with the Annual and Special Meeting to be held April 29, 2010. As part of its conversion to a corporate structure, Canadian Oil Sands has reviewed its distribution/dividend strategies. Based on current conditions, Canadian Oil Sands expects to determine dividend payments once it becomes a corporation on a similar basis as its 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' operating and capital obligations, crude oil prices and access to capital markets. Further, the taxability of Canadian Oil Sands after conversion will impact cash from operating activities in future periods.

Critical Accounting Estimates

A critical accounting estimate is considered to be one that requires assumptions be made about matters that are uncertain at the time the accounting estimate is made and would have a material impact on the financial results if different assumptions were used. Canadian Oil Sands makes numerous estimates in its financial results in order to provide timely information to users. The following estimates are, however, considered critical:

a) Canadian Oil Sands must estimate the reserves it expects to recover in the future and the related net revenues expected to be generated from those reserves. Our reserves and future net revenues are evaluated and reported in a reserve report prepared by independent petroleum reserve evaluators who determine their evaluations using various factors and assumptions, such as: forecasts of mining and extraction recovery and upgrading yield based on geological and engineering data, projected future rates of production, projected operating costs, royalties and taxes, projected crude oil prices and oil price differentials and timing and amounts of future development costs, all of which are estimates. We believe that the factors and assumptions used in the estimates are reasonable based on the information available at the time that the estimates are prepared. Estimates of reserves and future net revenues are critical to asset impairment tests. In addition, reserves are used as a component of the D&D calculations to allocate capital costs over their estimated useful lives. The reserve report is reviewed by Canadian Oil Sands' Management, the Reserves, Marketing Operations and Environmental, Health and Safety Committee and the Board of Directors.

As circumstances change and new information becomes available, the reserve report data could change. Future actual results could vary greatly from our estimates, and could cause material changes in our asset impairment tests or D&D estimates, both of which use the reserves and/or future net revenues in their respective calculations.

b) Canadian Oil Sands records its ARO liability and corresponding asset based on the estimated discounted fair value of its share of Syncrude's future expenditures required for reclamation of each of Syncrude's mine sites that have been disturbed. Syncrude is required to reclaim disturbed land to a sustainable landscape with productivity that is equal or greater than existed prior to development. In determining the fair value, Canadian Oil Sands must estimate the amount of the future cash payments, the timing of when those payments will be required, and then apply an appropriate credit-adjusted risk-free rate. Given the long reserve life of Syncrude's leases, the reclamation expenditures will be made over approximately the next 60 years, and therefore it is difficult to estimate the timing and amount of the reclamation payments that will be required as they occur far into the future.

   Any changes in the anticipated timing or the amount of the payments subsequent to the initial obligation being recorded results in a change to our ARO liability and corresponding asset. Such changes will impact the accretion of the obligation and the depreciation of the asset and will correspondingly impact net income.

   In addition, due to the indeterminate useful life of Syncrude's upgrader facilities and the uncertainty in estimating the timing and amount of the reclamation expenditures, if any, related to Syncrude's sulphur blocks, no amounts have been recognized in the Trust's ARO liability for those components. Actual future reclamation costs related to the upgrading facilities and the sulphur blocks may materially impact future ARO estimates and the Trust's cash from operating activities in the years these reclamation costs are incurred.

c) Canadian Oil Sands accrues its obligations for Syncrude Canada's post-employment benefits utilizing actuarial and other assumptions to estimate the projected benefit obligation, the return on plan assets and the expense accrual related to the current period. The basic assumptions utilized are outlined in Note 9(a) to the audited Consolidated Financial Statements. A 0.5 per cent change in the discount rate related to Syncrude Canada's defined benefit pension plan would result in an approximate increase/decrease of $48 million in our employee future benefit liability.

   In addition, actuarial gains and losses are deferred and amortized into income over the expected average remaining service lives of employees, which was estimated to be 12 years. Actual costs related to Syncrude Canada's employee benefit plans could vary greatly from the amounts accrued for the pension obligation and the plan assets. If Canadian Oil Sands had recognized the actuarial losses immediately in income, pension and other post-employment expense would have increased from $44 million to approximately $64 million in 2009. In addition, the accrued benefit liability on the Consolidated Balance Sheet would have increased from $115 million to $283 million. Canadian Oil Sands does not have a pension plan for its own employees. Therefore, all of the employee future benefit liabilities and expenditures relate to its working interest share of Syncrude Canada's pension benefit plan and post-employment plan obligations.

d) Canadian Oil Sands must estimate its future tax liability at the end of each reporting period based on estimates of temporary differences, when those temporary differences are expected to reverse and the tax rates at which they will reverse. Actual tax rates at which the temporary differences will reverse and the amount and timing of reversal of the temporary differences may, however, differ from our estimates and may result in material changes in our future income tax liability and future income tax expense or recovery.

New Accounting Pronouncements

There were no new accounting pronouncements issued by the Canadian Institute of Chartered Accountants ("CICA") during 2009 that are expected to have a material impact on the Trust.

Changes in Accounting Policies

Goodwill and Intangible Assets

In 2009, the Trust adopted the requirements of CICA Handbook Section 3064 – Goodwill and Intangible Assets, which replaced Section 3062 – Goodwill and Other Intangible Assets, and Section 3450 – Research and Development costs. The new section establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. Application of the new section did not have a material impact on the Trust's financial statements.

International Financial Reporting Standards

International Financial Reporting Standards ("IFRS") will replace Canadian GAAP for publicly accountable enterprises in Canada in 2011. Canadian Oil Sands will be required to adopt IFRS for interim and annual financial statements beginning on January 1, 2011 including comparative financial statements for 2010.

As part of its IFRS conversion project, the Trust has analyzed IFRS accounting standards, accounting policy alternatives, accounting system requirements and has prepared draft IFRS disclosures. The Trust's IFRS project will continue through 2010 and is on schedule for a January 1, 2011 implementation date. The final impacts to the Trust's Consolidated Financial Statements on the adoption of IFRS are not finalized and will depend on IFRS standards existing in 2011 and accounting policy choices made by Canadian Oil Sands.

Based on an analysis of differences between IFRS and Canadian GAAP, the amounts reported under IFRS that may differ from Canadian GAAP include asset retirement obligations, employee future benefits, stock-based compensation and property, plant and equipment. The final impacts of these differences, if any, have not been quantified at this time. Users are cautioned that the analysis will not be finalized until 2011 and that other differences may exist between amounts reported by the Trust under Canadian GAAP versus IFRS.

In addition to existing IFRS standards, new or revised IFRS standards are being developed by the International Accounting Standards Board ("IASB") that may impact the adoption of IFRS by the Trust in 2011 or thereafter. These standards include Joint Ventures, Income Taxes, Financial Instruments, Emissions Trading Schemes, Extractive Industries, Employee Future Benefits, and Measurement of Liabilities. The Trust continues to monitor these and other accounting standard developments within IFRS which might impact its conversion.

IFRS will likely result in additional disclosures in Canadian Oil Sands' financial statements of items already disclosed in other security documents in Canada. As part of preparing draft IFRS disclosures, the Trust has analyzed and will continue to analyze the additional disclosures to ensure sufficient information is available upon adoption of IFRS.

The Trust has analyzed its accounting systems in conjunction with its IFRS project and has concluded that it does not require any significant modification to adopt IFRS.

The effects of existing IFRS on the Trust's business activities have been reviewed, and it is not expected that IFRS will result in any significant changes to the Trust's business activities.

The adoption of IFRS also impacts Syncrude's reporting of results to the Trust. Syncrude has an implementation project to manage its own transition to IFRS. Canadian Oil Sands and the other Syncrude owners are stewarding Syncrude's IFRS implementation to help ensure that information provided by Syncrude meets the owners' needs. Areas of impact that have been identified for Syncrude on the adoption of IFRS include the accounting and reporting of property, plant and equipment held on behalf of the joint venture participants, pensions and stock-based compensation. The impact of adopting IFRS on Syncrude has not been quantified at this time.

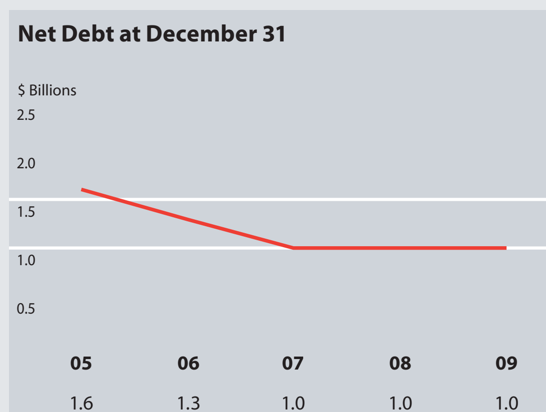
Liquidity and Capital Resources

As at December 31 *($ millions)*	**2009**	2008
Long-term debt	**$ 1,163**	$ 1,258
Cash and cash equivalents	**(122)**	(279)
Net debt	**$ 1,041**	$ 979
Unitholders' equity	**$ 3,969**	$ 3,910
Total capitalization [1]	**$ 5,010**	$ 4,889
Net debt to total capitalization *(%)*	**21**	20

[1] *Net debt plus Unitholders' equity. Net debt, total capitalization, as well as net debt to total capitalization are non-GAAP measures.*

During 2009, the Trust issued U.S. $500 million of Senior Notes. The notes have an annual interest rate of 7.75 per cent payable semi-annually and mature May 15, 2019. Proceeds from the notes were used to repay $200 million of Medium Term Notes and U.S. $250 million of Senior Notes that matured during 2009, and for general corporate purposes. The Trust's next debt maturity occurs in 2013. Net debt at December 31, 2009 was $1.0 billion, which is consistent with the balance at December 31, 2008. Approximately $200 million in foreign exchange gains on our U.S. dollar denominated debt offset the impact of a decrease in cash and cash equivalents.

In 2009, the Trust's $67 million line of credit was increased to $70 million and the term on the Trust's $40 million bilateral credit facility was extended to April 22, 2010.



We believe a slightly higher leverage level than our debt level at the end of 2009 may provide a more efficient capital structure and conserve tax pools prior to trust taxation; however, the Trust must also consider a prudent liquidity position, access to capital markets, and future investing and financing requirements. In 2009 the Trust paid distributions in excess of cash from operating activities less capital expenditures, but non-cash foreign exchange gains on our U.S. dollar denominated debt served to offset an increase in net debt. While we are comfortable with paying distributions in excess of cash from operating activities less capital expenditures, raising net debt will depend on actual operating results, economic conditions, future investing activities, foreign exchange rates and distribution payments based on these expectations. As a result, net debt levels may not increase if a more conservative balance sheet is deemed prudent.

Performance Ratios

	2009	2008
Return on average Unitholders' equity *(%)* [1]	**11**	38
ROCE *(%)* [2]	**7**	34

[1] *Calculated as comprehensive income divided by average Unitholders' equity.*

[2] *Return on average productive capital employed is calculated as net income before net interest expense, future income tax expense and unrealized foreign exchange gains and losses, divided by average net debt plus Unitholders' equity, excluding major expansion projects not yet in use. In 2009 and 2008, no such major expansion projects were excluded.*

A key non-GAAP benchmark used to evaluate the Trust's performance is return on average productive capital employed ("ROCE"), which is a measure of the returns the Trust realizes on its assets that are in productive use. In calculating ROCE, we exclude major expansion projects that are not yet used in production. In 2009, and 2008, there were no such major expansion projects excluded. The Trust's ROCE and return on average Unitholders' equity were lower in 2009 compared to 2008 due primarily to the decrease in comprehensive income before net interest, unrealized foreign exchange, and future income taxes.

Unitholder Distributions

($ millions)	2009	2008
Cash from operating activities	**$ 547**	$ 2,241
Net income	**$ 432**	$ 1,523
Unitholder distributions	**$ 435**	$ 1,804
Excess of cash from operating activities over Unitholder distributions [1]	**$ 112**	$ 437
Shortfall of net income over Unitholder distributions [2]	**$ (3)**	$ (281)

[1] *Cash from operating activities less Unitholder distributions.*
[2] *Net income less Unitholder distributions.*

In 2009, cash from operating activities exceeded Unitholder distributions by $112 million. Cash from operating activities along with opening cash balances, equity issued by the Trust's Premium Distribution, Distribution Re-Investment and Optional Unit Purchase Plan ("DRIP"), and the U.S. $500 million Senior Note issue were sufficient to fund the Trust's capital expenditures, debt repayments, reclamation trust fund contributions, and distributions.

Unitholder distributions in 2009 were in line with 2009 net income. Unitholder distributions in 2008 exceeded net income primarily as a result of DD&A and foreign exchange losses on long-term debt, which are non-cash items that do not affect the Trust's cash from operating activities or ability to pay distributions over the near term.

The Trust uses debt and equity financing to the extent that cash from operating activities and existing cash balances are insufficient to fund capital expenditures, reclamation trust contributions, debt repayments, acquisitions, distributions, and working capital changes from financing and investing activities. For further discussion, see the "Liquidity and Capital Resources" section of this MD&A.

On January 28, 2010, the Trust declared a quarterly distribution of $0.35 per Unit in respect of the first quarter of 2010 for a total distribution of $170 million. The distribution will be paid on February 26, 2010 to Unitholders of record on February 18, 2010. Quarterly distributions are approved by our Board of Directors after consideration of current and expected economic conditions, financing capacity for Canadian Oil Sands' capital requirements and the objective of maintaining an investment grade credit rating.

Cash from operating activities and net income can fluctuate from period to period due to variability in Syncrude's operating performance, WTI pricing, SCO differentials to WTI, FX rates and other factors. The Trust strives to reduce the impact of these fluctuations on distributions by taking a longer-term view of the operating and business environment, our net debt level, and our capital expenditure and other commitments. In that regard, the Trust may distribute more or less in a period than is generated in cash from operating activities or net income. The variable nature of cash from operating activities and net income introduces risk in the ability to sustain or provide stability in distributions. As such, any expectations regarding the stability or sustainability of distributions are unwarranted and should not be implied. Further, the taxation of income trusts commencing January 1, 2011 likely will reduce future net income and cash from operating activities.

In determining the Trust's distributions, Canadian Oil Sands also considers funding for its significant operating obligations, which are included in cash from operating activities. Such obligations include the Trust's share of Syncrude's pension and reclamation funding, which amounted to $69 million and $55 million in 2009 and 2008, respectively. We do not anticipate significant increases in funding for reclamation items in 2010; however, pension funding may rise as a result of the next actuarial valuation to be completed in 2010.

Debt covenants do not specifically limit the Trust's ability to pay distributions and are not expected to influence the Trust's liquidity in the foreseeable future. Aside from covenants relating to restrictions on Canadian Oil Sands' ability to sell all or substantially all of its assets or to change the nature of its business, the most restrictive financial covenant limits total debt-to-total capitalization at less than 55 per cent. With a net debt-to-total capitalization of approximately 21 per cent at December 31, 2009, a significant increase in debt or decrease in equity would be required to restrict the Trust's financial flexibility.

Premium Distribution, Distribution Re-Investment and Optional Unit Purchase Plan

During 2009, Canadian Oil Sands reinstated its DRIP to help preserve balance sheet equity during a time of lower crude oil prices, higher maintenance activities and tight credit markets. In the third quarter, we suspended the DRIP as a result of strengthening crude oil prices, the U.S. $500 million Senior Note issue, and stabilizing capital markets. For the first and second quarters of 2009, participation in the DRIP was about 46 per cent and 41 per cent, respectively, and a total of 2.9 million Units were issued in 2009 (2008 – nil).

Capital Expenditures

In 2009, capital expenditures totalled $409 million versus $281 million in 2008. The Syncrude Emissions Reduction project ("SER") accounted for $115 million and $73 million of the capital spent in 2009 and 2008, respectively. The remaining expenditures related to other sustaining capital activities, including the purchase of trucks and shovels, modifications to Coker 8-3 and related units, construction of tailings facilities, and other infrastructure projects. Sustaining capital expenditures on a per barrel basis were $10.86 and $7.23 in 2009 and 2008, respectively. Sustaining capital on a per barrel basis is also affected by the Trust's sales volumes, which were lower in 2009 relative to 2008.

Canadian Oil Sands' capital expenditures for 2009 and 2008 were primarily related to sustaining capital. The Trust defines expansion capital expenditures as the costs incurred to grow the productive capacity of the operation, while sustaining capital is effectively all other capital. Sustaining capital expenditures may fluctuate considerably year-to-year due to the timing of equipment replacement and other factors. The productive capacity of Syncrude's operations is described in the "Review of Syncrude Operations" section of this MD&A.

Syncrude is undertaking the SER project to retrofit technology into the operation of Syncrude's original two cokers to reduce total sulphur dioxide and other emissions. After the completion of the $1.6 billion project, stack emissions of sulphur compounds are anticipated to be about 60 per cent lower than current approved license levels. The Trust's share of the SER project expenditures incurred to date is approximately $300 million, with the remaining costs expected to be incurred over the next two years as construction is coordinated with equipment turnaround schedules.

Sustaining capital expenditures, including the SER project, are estimated to average about $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 replacement and relocation of four mining trains. Sustaining capital cost estimates will be periodically updated upon the completion of detailed engineering estimates and approval of projects.

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

Contractual Obligations and Commitments

The following table outlines the significant financial obligations and commitments that were assumed in the normal course of operations and were known as of February 23, 2010. These obligations and commitments represent future cash payments that the Trust is required to make under existing contractual agreements that it has entered into either directly, or as a 36.74 per cent owner in Syncrude:

	Payments due by period				
($ millions)	Total	< 1 year	1 – 3 years	4 – 5 years	After 5 years
Long-term debt [1]	$ 1,993	$ 86	$ 571	$ 135	$ 1,201
Capital expenditure commitments [2]	303	147	156	–	–
Pension plan solvency deficiency payments [3]	94	14	31	17	32
Management services agreement [4]	125	17	51	34	23
Pipeline commitments [5]	528	19	59	39	411
Asset retirement obligations [6]	903	45	129	54	675
Other obligations [7]	424	223	128	20	53
	$ 4,370	$ 551	$ 1,125	$ 299	$ 2,395

1 Actual payments differ from the carrying value as the amounts are stated at amortized cost plus interest payment commitments on the long-term debt.

2 Capital expenditure commitments are primarily comprised of our 36.74 per cent share of the SER project.

3 We are responsible for funding our 36.74 per cent share of Syncrude Canada's registered pension plan solvency deficiency, which was confirmed in the December 31, 2006 actuarial valuation that was completed in 2007.

4 Reflects our 36.74 per cent share of Syncrude Canada's annual fixed service fees under the agreement.

5 Reflects our 36.74 per cent share of the AOSPL pipeline commitment as a Syncrude owner.

6 Reflects our 36.74 percent share of the undiscounted estimated cash flows required to settle Syncrude's environmental obligations upon reclamation of the Syncrude properties.

7 These obligations primarily include our 36.74 per cent share of the minimum payments required under Syncrude's commitments for natural gas purchases. Other items include, but are not limited to, annual disposal fees for the flue gas desulphurization unit and tire supply agreements.

The Trust's commitments and obligations have increased relative to the prior year end, primarily as a result of increased asset retirement obligations, new natural gas purchase commitments, and a net increase in the Trust's long-term debt.

Canadian Oil Sands accrues its obligations for Syncrude Canada's post-employment benefits utilizing actuarial and other assumptions to estimate the projected benefit obligation, the return on plan assets and the expense accrual related to the current period. Syncrude Canada's last actuarial valuation of its pension plan was completed during 2007, which established funding requirements until December 31, 2009. Syncrude's next required valuation for funding purposes will be completed in 2010 and will be as of December 31, 2009. The new valuation may result in increased funding requirements.

Unitholders' Capital and Trading Activity

Canadian Oil Sands issues Unit options ("options") as part of its long-term incentive plan for employees. There were 486,542 options granted in 2009 with an average exercise price of $19.77 per option and a fair value of approximately $2 million, which will be amortized into income over a three-year vesting period. On February 2, 2010, another 363,347 options were granted with a fair value of approximately $2 million. There were 1.7 million options outstanding at February 23, 2010, representing less than one per cent of Units outstanding. Each option represents the right of the optionholder to purchase a Unit at the exercise price determined at the date of grant. All option exercise prices are reduced by distributions over a threshold amount. The options vest by one-third following the date of grant in each of the first three years and expire seven years from the date of grant.

As at December 31, 2009, there were 197,635 performance Unit rights ("PUPs") outstanding with an accrued value of approximately $5 million. On February 2, 2010 an additional 72,368 PUPs were granted with a fair value of approximately $2 million. The PUPs are earned based on total Unitholder return at the end of three years compared to a peer group, with the actual Unit equivalents earned ranging from zero to double the target award. More detail on the Trust's stock-based compensation plans can be found in Note 16(a) to the audited Consolidated Financial Statements, as well as the Trust's Management Proxy Circular dated March 15, 2010, which is available on our website at www.cos-trust.com or at www.sedar.com.

Canadian Oil Sands' Units trade on the Toronto Stock Exchange under the symbol COS.UN. The Trust had a market capitalization of approximately $14 billion with 484 million Units outstanding and a closing price of $29.91 per Unit on December 31, 2009. A table summarizing the Units issued in 2009 is included in Note 15(a) of the audited Consolidated Financial Statements.

Sustainable Development

Waterfowl Incident at Syncrude's Aurora Mine Tailings Pond

In April 2008, a flock of ducks landed and drowned in one of Syncrude's tailings ponds. As a result, Environment Canada, along with Alberta Environment and Alberta Sustainable Resource Department initiated an investigation into the incident. On February 9, 2009, Syncrude Canada was charged under subsection 5.1(1) of the Migratory Birds Convention Act, 1994 ("MBCA") and section 155 of the Alberta Environmental Protection and Enhancement Act ("EPEA"). The matter is still before the courts with a trial date set for March 1, 2010. Syncrude Canada takes the matter seriously and in 2008 and 2009 instituted additional deterrent measures to prevent this event from reoccurring.

Greenhouse Gas Emissions Reduction Requirements

In 2007, through the Specified Gas Emitters Regulation, Alberta became the first province in Canada to regulate greenhouse gases ("GHG") by establishing intensity targets for Large Final Emitters of carbon dioxide ("CO_2"). Effectively, the regulation requires Syncrude, beginning in the second half of 2007, to reduce per barrel emissions of GHG by 12 per cent from the average of its annual per barrel emissions between 2003 and 2005. If Syncrude is unable to meet this target directly, it must purchase offset credits or pay into a government fund dedicated to the development of emissions reduction technologies.

For 2009, Syncrude accrued approximately $0.10 per barrel, or approximately $3 million net to the Trust, for compliance with the Specified Gas Emitters Regulation, which is reflected in the Trust's operating costs. The cost estimate remains preliminary pending Syncrude's actual CO_2 emission intensity level and clarification from the Alberta government regarding details of implementation.

Canada's federal government also has indicated its intention to implement a regulatory framework to reduce GHG emissions. In February 2010, the federal government indicated its intention to reduce GHG emissions by 17 per cent by 2020 from 2005 levels. This is a revision of the draft regulation originally announced by the government on April 26, 2007. The draft regulations are expected to impact both current Syncrude operations and its future expansion projects; however, the full impact of the regulations cannot be quantified until they are finalized.

Syncrude continues to explore and implement measures to reduce energy intensity in its operations, which reduces both CO_2 emissions and operating costs. Syncrude also is exploring the viability of developing a large-scale CO_2 capture, transportation and storage network through participation in the Integrated CO_2 Network ("ICO_2N").

Tailings Management

Tailings systems are designed to separate water from sand and clay to enable incorporation of solids into reclamation landscapes and recycling of water back into the operations. Syncrude and most other oil sands producers use a method called consolidated tails technology; however, additional tailings management technologies are required in order to meet government directives for closure and reclamation. Syncrude is exploring methods to improve and supplement the effectiveness of its tailings systems.

On February 5, 2009, the Alberta Energy Resources Conservation Board ("ERCB") released Directive 074: Tailings Performance Criteria and Requirements for Oil Sands Mining Schemes. This directive provides new industry-wide criteria to supplement existing regulations by requiring operators to:

- reduce fluid fine tailings by capturing a minimum amount of fines in Dedicated Disposal Areas ("DDA");
- 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 annual compliance reports for DDAs, annual tailing plans and pond status reports. DDA plans must also be submitted two years prior to construction.

On September 30, 2009, Syncrude submitted their first annual tailings plan as required by Directive 074.

Syncrude filed an amendment to its regulatory approval to modify the design of the existing Southwest Sand Storage ("SWSS") facility, permitting interim storage of increased volumes of mature fine tailings and to subsequently incorporate supplemental technologies to reduce tailings inventories. Changes to the design of the SWSS facility will be required to increase its fluid storage capacity. The change in design will not increase the footprint of the structure, but rather elevate the fluid level within it. Pending regulatory approval, Syncrude intends to make use of this increase in capacity in 2010.

Risk Management

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

There are a number of risks that could impact Canadian Oil Sands' net income and cash flows and, therefore, the distributions ultimately paid to Unitholders. Cash from operating activities is highly sensitive to a number of factors including: Syncrude production; sales volumes; oil and natural gas prices; price differentials; foreign currency exchange rates; operating, administrative, and financing expenses; non-production costs; Crown royalties; and regulatory and environmental risks. Distributions may also be impacted by Canadian Oil Sands' financing requirements for sustaining and growth capital expenditures. Sensitivities to the most significant items affecting cash from operating activities are provided in the "2010 Outlook" section of this MD&A.

The following discusses the significant risks that impact Canadian Oil Sands' cash from operating activities, corporate reputation and EH&S performance. More information regarding Canadian Oil Sands' risks is available in its AIF dated March 22, 2010, which is available on our website at www.cos-trust.com or at www.sedar.com.

Commodity Price Risk

Crude Oil Price Risk

Our cash flows are impacted by changes in both the U.S. dollar denominated crude oil prices and U.S./Canadian FX rates. Over the last two years, daily WTI prices have experienced significant volatility, ranging from $145 U.S. per barrel to $34 U.S. per barrel. The Trust prefers to remain un-hedged on crude oil prices. However, during periods of significant capital spending and financing requirements, Management has, and may again, hedge prices and exchange rates to reduce revenue and cash flow volatility to the Trust.

Canadian Oil Sands did not have any crude oil price hedges in place for 2009 or 2008. Instead, a strong balance sheet was used to mitigate the risk around crude oil price movements. As at February 23, 2010, and based on current expectations, the Trust remains un-hedged on its crude oil price exposure.

In the past few years various oil sands projects have come on-stream, have been under development, or are being contemplated. This activity will affect the supply of synthetic crude oil in the market. There is no guarantee that sufficient demand or pipeline capacity will exist to absorb the increased supply without eroding the selling price. This could result in a deterioration of the price differential that Canadian Oil Sands realizes compared with benchmark prices such as WTI. Based on the expected supply of, and demand for, light synthetic crude oil in 2010, we are estimating a price discount for our product of $2.00 per barrel relative to Canadian dollar WTI prices.

Natural Gas Price Risk

Purchased natural gas is a significant component of the bitumen production and upgrading processes. Increases in natural gas prices, therefore, introduce the risk of higher operating costs. Similar to crude oil prices, monthly average AECO natural gas prices have experienced significant movements over the last two years, ranging from a high of $11.15 per GJ to a low of $1.92 per GJ. To the extent crude oil and natural gas prices move together, the risk of natural gas price increases is mitigated as the Trust is significantly more levered to oil price increases. The main risk involves a de-linking of crude oil and natural gas price movements. The Trust has previously used hedge positions to mitigate natural gas price risk and will continue to assess this strategy as a means to manage short-term operating costs. No natural gas hedges were utilized in 2009 or 2008 and as at February 23, 2010, there were no natural gas hedges in place.

Canadian Oil Sands owns Arctic natural gas assets which, even though they are not currently in production and there are no development plans at this time, may provide a partial long-term offset against significant future natural gas price increases. Further information on the Arctic assets is provided in the "Impairment of Arctic Assets" section of this MD&A.

Operational Risk

Our investment in Syncrude is our only producing asset and therefore the results of the Trust depend on Syncrude's operations. The Syncrude Project is a 24-hour per day, 365-day per year operation which includes complex, inter-dependent facilities. The shutdown of any part of Syncrude's operation could significantly impact the production of SCO. Causes of production shortfalls and/or interruptions may include, but are not limited to: design errors, equipment failures, bitumen constraints, operator errors, weather-related shutdowns or catastrophic events such as fire, earthquake, storms, explosions or dam failures. There is also the risk that the Syncrude plant will not achieve its design capacity on a sustained basis and/or will not be able to produce SCO with the expected quality specifications, which would impact the Trust's financial returns.

Productivity of the mining operations may also be reduced due to maintenance, weather conditions or unplanned outages such that internally produced bitumen may not be sufficient to supply enough feed for the upgrading facility to meet its production capacity. While Syncrude has the ability to import purchased bitumen, there are physical restrictions on the amount of bitumen that can be transported into Syncrude's facilities and there is a risk that sufficient quantities of bitumen may not be available or economic. Further, the cost of purchased bitumen may be higher than Syncrude's own production costs. Partially offsetting this risk is the opportunity at periods in time, such as during coker turnarounds, for the mining operations to produce more bitumen than is required by the upgrading facility, which results in Syncrude building bitumen inventory for later use. Syncrude's bitumen inventory capabilities, however, are limited.

Extreme cold weather can affect both ongoing operations and capital projects by reducing worker productivity, producing mechanical failure, and potentially increasing natural gas consumption. Major incidents or unscheduled outages during winter months may curtail production and result in significant increases to operating costs.

The Syncrude Project incorporates operational risk management programs as well as support from Imperial Oil Resources/ExxonMobil through a Management Services Agreement. These organizations apply robust engineering and design standards and utilize maintenance and inspection procedures to mitigate operational risk. Sustained, safe and reliable operations are critical to achieving targets for production and operating costs.

In addition, we are exposed to the risks associated with major construction projects. These risks include the possibility that projects will not be completed on time and/or will not achieve their design objectives. Complications could arise when new systems are integrated with existing systems and facilities.

Canadian Oil Sands reduces exposure to some operational risks by maintaining appropriate levels of insurance, primarily business interruption ("BI") and property insurance. We have purchased total coverage of U.S. $1.0 billion of BI and property insurance in case Syncrude experiences an event causing a loss or interruption of production, such as a fire or explosion at the operating facilities. The BI insurance is subject to a 60-day self-retention period and the property insurance contains a $50 million deductible at the Syncrude level. While such insurance mitigates the impact of certain operational upsets, insurance is unlikely to fully protect against catastrophic events or prolonged shutdowns.

We also face risks associated with competition amongst other oil sands producers for limited resources, in particular skilled labour, in the Fort McMurray area where Syncrude and other oil sands producers operate. The demand for these resources contributes to cost inflation for products and services to operate and expand Syncrude's facilities. In addition to paying its employees and contract staff competitive industry compensation, Syncrude Canada has a very strong record for safety performance and is an innovative and socially responsible company committed to the environment and dedicated to its employees, the Aboriginal Peoples, and the communities of northern Alberta. We believe these qualities assist in retaining skilled labour. Additionally, Syncrude Canada implemented an employee retention program in 2006 that resulted in cash payments in early 2009, which may provide savings associated with an experienced workforce. This program was renewed in 2009. To deal with the increased demands on local infrastructure, such as housing, Syncrude cooperates, where they are able to, with other industry participants to share resources, such as camps.

There may also be increased activity in global industries, such as the mining sector, which are competing for constrained supplies and labour. While we do not expect any specific shortage to impact our current 2010 production outlook, the ability to achieve higher levels of production may be limited by unexpected supply or labour constraints.

Capital Expenditure Risk

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 industry in general and the Fort McMurray area specifically, have contributed to an escalation in 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.

In addition to potential capital cost increases, we are exposed to financing risks associated with funding our share of Syncrude's capital program. We have historically minimized this risk by accessing diverse funding sources, including credit facilities and cash from operating activities. In addition, we believe that the Trust has the ability to access public debt and equity markets, given our asset base and current credit ratings; however, maintenance of such market access may be impacted by sustained low production and low commodity prices. For further discussion, see the "Liquidity Risk" disclosure within the "Financial Market Risk" section of this MD&A.

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

Financial Market Risk

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

Foreign Currency Risk

Canadian Oil Sands' results are affected by fluctuations in the U.S./Cdn 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 high of $1.03 U.S./Cdn to a low of $0.77 U.S./Cdn, closing out at $0.96 U.S./Cdn at December 31, 2009. 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. senior notes mature, we have exposure to U.S. dollar exchange rates on the principal repayment of the notes. This repayment of U.S. dollar debt acts as a partial economic hedge against the U.S. dollar denominated revenue payments we receive from our customers.

In the past, the Trust has hedged foreign currency exchange rates by entering into fixed rate currency contracts. The Trust did not have any foreign currency hedges in place at December 31, 2009, and as at February 23, 2010, we do not intend to enter into any new currency hedge positions. The Trust may, however, hedge foreign currency exchange rates in the future, depending on the business environment and growth opportunities.

As at December 31, 2009, portions of Canadian Oil Sands' cash and cash equivalents, accounts receivable, accounts payable and long-term debt were denominated in U.S. dollars. Based on these U.S. dollar financial instrument closing balances, 2009 net income and other comprehensive income would have increased/decreased by approximately $10 million for every $0.01 decrease/increase in the value of the U.S./Canadian exchange rate.

Interest Rate Risk

Canadian Oil Sands' results, particularly our net interest expense, are impacted by U.S. and Canadian interest rate changes because our credit facilities and investments are exposed to floating interest rates. In addition, we are exposed to the refinancing of maturing long-term debt at prevailing interest rates. As at December 31, 2009, no amounts were drawn on the credit facilities and the next debt maturity is in 2013. The Trust did not have a significant exposure to interest rate risk based on the amount of floating rate debt or investments outstanding during the year.

Liquidity Risk

Liquidity risk is the risk that Canadian Oil Sands will not be able to meet its financial obligations as they come due. Canadian Oil Sands actively manages its liquidity through daily and longer term cash, debt and equity management strategies. Such strategies encompass, among other factors: having adequate sources of financing available through its bank credit facilities, estimating future cash generated from operations based on reasonable production and pricing assumptions, analysis of economic hedging opportunities, and compliance with debt covenants.

Information regarding the amount of available credit facilities and contractual maturities of Canadian Oil Sands' long-term debt can be found in Notes 10 and 11, respectively, to the Consolidated Financial Statements. Canadian Oil Sands was in compliance with its debt covenants as at December 31, 2009.

In addition, we are exposed to liquidity risk to the extent we have financing requirements related to significant capital or operating commitments. Over the long-term, Canadian Oil Sands manages these risks by spreading out the maturities of its various debt tranches and maintaining a prudent capital structure.

The timing of cash outflows related to financial liabilities is outlined below:

	Cash outflow by period				
($ millions)	Total	< 1 year	1 – 3 years	4 – 5 years	After 5 years
Accounts payable and accrued liabilities	284	284	–	–	–
Long-term debt [1]	1,993	86	571	135	1,201

[1] *Actual payments differ from the carrying value as the amounts are stated at amortized cost plus interest payment commitments on the long-term debt.*

Credit Risk

Canadian Oil Sands is exposed to credit risk primarily through its trade accounts receivable balances with customers, 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 maximum exposure to any one customer or financial counterparty is controlled through a credit policy that limits exposure based on credit ratings. The policy also specifically limits the exposure to customers with a credit rating below investment grade to a maximum of 25 per cent of Canadian Oil Sands' consolidated accounts receivable. This credit risk concentration is monitored on a regular basis. Risk is further mitigated as accounts receivable with customers typically are settled in the month following the sale, and investments with financial counterparties are typically short-term in nature and are placed with institutions that have a credit rating of "A" or better.

The Trust's maximum credit exposure related to customer receivables was $329 million at December 31, 2009 (2008 – $167 million). At December 31, 2009, the vast majority of our accounts receivable balance was due from investment grade energy producers and refinery-based customers, and our cash and cash equivalents were held in either cash or term deposits with high-quality senior Canadian banks. The Trust did not have any material derivative contracts in place as at December 31, 2009. At present, there are no financial assets that are past their maturity or impaired due to credit risk-related defaults.

The financial condition of some of our U.S. based refinery customers came under pressure during 2009 and has continued into 2010, reflecting low refinery margins during the economic downturn. Canadian Oil Sands carries credit insurance to help mitigate the impact should a loss occur and continues to transact primarily with investment grade customers.

Syncrude Joint Venture Ownership

Syncrude is a joint venture that is currently owned by seven participants with varying interests. Major capital decisions for new projects require unanimous support of the Syncrude owners, while other matters require only the approval of a majority of the working interests and three Syncrude owners. Historically, Canadian Oil Sands and the Syncrude owners have sought consensus on all significant matters. There can be no assurance, however, that unanimous agreement will be reached on major capital programs or that future expansions will be executed as currently planned. Additionally, while the obligations of the Syncrude owners are stated to be joint and not several under the terms of the joint venture agreement, a number of the environmental regulatory requirements impose joint and several liability on all land owners and, as such, the Syncrude owners. Mitigating this is the credit strength of the other joint venture owners, as well as the ability of the joint venture owners to take the production of any defaulting joint venture owner to satisfy any such obligations.

Marketing and Transportation of Synthetic Crude Oil

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 United States 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. 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 occurs, then 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.

All of our Syncrude production is currently transported through the Alberta Oil Sands Pipeline Limited ("AOSPL") system, which delivers crude oil 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 deliver our SCO to refinery customers throughout 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 by capacity constraints if the supply of feedstock into the system exceeds the infrastructure capacity. While we believe long-term take-away capacity will exceed crude oil supply out of Alberta, 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 interruptions and/or increased supply of crude oil, will not occur.

We manage exposure to these risks by allocating deliveries to multiple customers via multiple pipelines, however, pipeline choices are limited. Significant additional export pipeline capacity is scheduled to come on line with two new pipeline projects expected to be in service in 2010.

Environmental Risk

We are exposed to the risk of a negative impact of Syncrude's operations on the environment. Syncrude's commitment to operational, environmental and social excellence targets global best practices and is aligned with the mitigation of environmental impacts. The Syncrude facility incorporates technologies to reduce emissions, improve energy efficiency and upgrade the entire production stream to help refiners meet higher specifications for environmental and product quality.

The Syncrude operations involve use of water and the emission of greenhouse gases so legislation that significantly restricts or penalizes current production levels would have a material impact on our operations. The costs of meeting such environmental thresholds would increase operating costs and/or capital costs, and as such, may impact the profitability of the operations.

Syncrude expects its efforts to reduce its energy consumption will contribute to lower CO_2 emissions per barrel of SCO production. Total CO_2 emissions may, however, increase as production rises and the risk exists that these mitigation efforts will not meet societal expectations or new environmental regulations.

Syncrude expects to reduce total sulphur dioxide ("SO_2") stack emissions by about 60 per cent from current approved license levels, along with other emissions such as particulate matter and metals, through investments in sulphur reduction technology. As part of the Stage 3 expansion, Syncrude equipped its third fluid coker with a flue gas desulphurization unit that captures SO_2. Syncrude has an agreement in place to provide the sulphur from the desulphurization unit to a third party for use in the manufacture of ammonium sulphate fertilizer. Currently under construction is the SER project, which retrofits sulphur reduction technology into the operation of Syncrude's original two cokers. This project is expected to be completed in 2011.

Syncrude produces and stores significant amounts of sulphur in inventory blocks at its plant site since, historically, there has been a limited market for the sale of this 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 our SCO. Syncrude continues to research alternatives for addressing this issue, which also affects other sulphur producers in the petroleum industry.

Syncrude owners are liable for their share of ongoing environmental obligations for the ultimate reclamation of the Syncrude Project. We are currently funding our share of Syncrude's ongoing environmental obligations through cash from operating activities. Each of the Syncrude owners has directly posted letters of credit with the Province of Alberta to secure the ultimate mining reclamation obligations, of which Canadian Oil Sands' share was approximately $70 million as at December 31, 2009. In addition to the letters of credit, Canadian Oil Sands maintains a reclamation trust fund to help meet this future reclamation liability.

In 2009, we contributed approximately $5 million, including earned interest, versus approximately $6 million in 2008 to our reclamation trust account, resulting in a December 31, 2009 ending balance of approximately $48 million. The funding requirement of the reclamation trust is more fully described in Note 12 to the audited Consolidated Financial Statements.

Legal and regulatory regimes regarding emissions and environmental protection in the U.S. may also impact the Trust. Environmental legislation in importing jurisdictions in the U.S. may directly affect costs associated with sales of Syncrude production in those jurisdictions. For example, legislation regulating carbon fuel standards in California and other states could result in increased costs to the Trust if purchases of emission permits or credits are required in order to conduct sales in those jurisdictions. The legal and regulatory regimes applicable to American refineries may also have significant, indirect consequences on Canadian Oil Sands' marketing of Syncrude products to the extent that the capacity of refining companies to handle Syncrude products is negatively impacted.

There are also 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. Again, as no conclusions or recommendations have been issued by such regulatory review body, we cannot assess the impact of any such proposals on our operations.

Foreign Ownership

While Canadian Oil Sands remains an income trust, the limitation on foreign ownership remains in effect. However, once Canadian Oil Sands converts to a corporate structure at the end of 2010, this limitation will no longer apply. Accordingly, Management believes the risk of being offside the foreign ownership limitation to be minimal given the timing of conversion and current ownership levels. See further discussion of the limitation on foreign ownership in our AIF dated March 22, 2010 at www.sedar.com or on our website at www.cos-trust.com.

Based on account data at November 20, 2009, Canadian Oil Sands estimates that approximately 28 per cent of our Units are held by non-Canadian residents with the remaining 72 per cent being held by Canadian residents.

Consolidated Results Compared to Prior Year's Outlook

In its 2008 annual MD&A, the Trust provided guidance with regard to its expected cash from operating activities and capital expenditures (the "original estimate" or "original Outlook"). During 2009 the Trust revised this guidance in quarterly reports and information releases to reflect actual operating results and new material information as it became available (the "revised estimate" or "revised Outlook").

		2009 Outlook	
	2009 Actual	Original [1]	Revised [2]
Outlook assumptions:			
Syncrude production *(mmbbls)*	**102**	115	104
Canadian Oil Sands' sales *(mmbbls)*	**38**	42	38
West Texas Intermediate *(average U.S.$ per barrel)*	**$ 62.09**	$ 50.00	$ 62.00
Premium (Discount) price differential *(Cdn$/bbl)* [3]	**$ (1.08)**	$ (4.00)	$ (1.15)
Average foreign exchange rates *(U.S.$/Cdn$)*	**$ 0.88**	$ 0.83	$ 0.90
Cash from operating activities *(millions)*	**$ 547**	$ 747	$ 593
Change in non-cash working capital	**$ (207)**	$ (31)	$ (172)
Revenues after transportation expense	**$ 2,615**	$ 2,392	$ 2,606

1 *As provided in the Trust's 2008 annual report.*
2 *Final Outlook provided during 2009.*
3 *Based on a volume weighted-average calculation.*

Syncrude production in 2009 of 102 million barrels was lower than Canadian Oil Sands' original estimate of 115 million barrels as a result of an extended turnaround, unplanned outages and bitumen production constraints. During 2009, the Trust revised its estimate of annual Syncrude production to 104 million barrels to reflect operational difficulties encountered during the first half of the year.

Cash from operating activities was lower than the original Outlook by $200 million, primarily reflecting larger increases in non-cash working capital and higher Crown royalties, partially offset by higher revenues. The significant increase in our selling price resulted in revenues that were $223 million higher than our original budget.

In October 2009 we revised our estimate of WTI prices to U.S.$62 per barrel and the price differential to a $1.15 per barrel discount to reflect the strengthening in prices during the year. Revenues after crude oil purchases and transportation expense were $2.6 billion, consistent with our revised estimate.

Capital expenditures in 2009 were $409 million compared to our original Outlook of $440 million.

2010 Outlook

(millions of Canadian dollars, except volume and per barrel amounts)		
Syncrude production *(mmbbls)*		115
Canadian Oil Sands sales *(mmbbls)*		42.3
Revenues, net of crude oil purchases and transportation		3,029
Operating costs		1,480
Operating costs per barrel		35.04
Crown royalties		317
Capital expenditures		541
Cash from operating activities		1,013
Business environment assumptions		
West Texas Intermediate *(U.S.$/bbl)*	$	70
Premium (Discount) to average Cdn$ WTI prices *(Cdn$/bbl)*	$	(2.00)
Foreign exchange rate *(U.S.$/Cdn$)*	$	0.95
AECO natural gas *(Cdn$/GJ)*	$	6.00

Canadian Oil Sands is estimating Syncrude production of 115 million barrels with a range of 110 to 120 million barrels for 2010. Our annual production estimate reflects unplanned outages, turnaround of the LC finer in the first quarter and a turnaround of Coker 8-1 during the year.

Purchases of bitumen by Syncrude are not anticipated during 2010 to achieve the budgeted production levels; however, Syncrude continues to monitor bitumen prices and upgrading capacity and may purchase bitumen from time to time to optimize its operations. These purchases are not anticipated to have a material impact on Syncrude's production and Canadian Oil Sands' financial results in 2010.

We expect the Trust's 2010 revenues after crude oil purchases and transportation expense to total $3.0 billion. Annual operating expenses in 2010 are estimated at $35 per barrel, consisting of approximately $29 per barrel and $6 per barrel of production costs and purchased energy, respectively. Purchased energy costs assume a $6 per GJ natural gas price.

We have assumed a U.S. $70 per barrel WTI crude oil price, a $0.95 U.S./Cdn foreign exchange rate, and a $2.00 per barrel SCO discount to $C-WTI, resulting in revenues of $72 Cdn per barrel.

Based on the above assumptions, our estimate of 2010 cash from operating activities is $1,013 million, or $2.09 per Unit. After deducting budgeted 2010 capital expenditures of $541 million, we are estimating $472 million, or $0.97 per Unit, of remaining cash from operating activities.

Distributions paid in 2010 are expected to be 100 per cent taxable as other income. The actual taxability of the distributions will be determined and reported to Unitholders prior to the end of the first quarter of 2011.

Changes in certain factors and market conditions could potentially impact Canadian Oil Sands' Outlook. The following table provides a sensitivity analysis of the key factors affecting the Trust's cash from operating activities. In addition to the factors described in the table, the supply and demand equation and pipeline access for synthetic crude oil in the North American markets could also impact the price differential for SCO relative to crude benchmarks, but these factors are difficult to predict.

2010 Outlook Sensitivity Analysis

Variable [1]	Annual Sensitivity	Cash from Operating Activities Increase	
		$ millions	$/Trust Unit
WTI crude oil price increase	U.S.$1.00/bbl	33	0.07
Syncrude production increase	2 million bbls	39	0.08
Syncrude operating costs decrease	Cdn$1.00/bbl	35	0.07
Syncrude operating costs decrease	Cdn$50 million	15	0.03
Canadian dollar weakening	U.S.$0.01/Cdn$	23	0.05
AECO natural gas price decrease	Cdn$0.50/GJ	17	0.04

[1] *An opposite change in each of these variables will result in the opposite cash from operating activities impacts. Canadian Oil Sands may become subject to minimum Crown royalties at a rate of one per cent of gross bitumen revenue. The sensitivities presented herein assume royalties are paid at 25 per cent of net bitumen revenue.*

Controls Environment

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

We periodically review and update our internal control systems to reflect changes in our business environment. We did not materially change any of our internal controls during 2009.

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

Canadian Oil Sands, under the supervision and participation of Management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures and the design of our internal control over financial reporting pursuant to National Instrument 52-109 "Certification of Disclosure in Issuers' Annual and Interim Filings" as of December 31, 2009. In addition, Management has evaluated the effectiveness of internal control over financial reporting as of December 31, 2009 using criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on these evaluations, Canadian Oil Sands' Management concluded that:

- Our disclosure controls and procedures were effective as of December 31, 2009 to provide reasonable assurance that material information is recorded, processed, summarized and reported within the time periods specified by the applicable Canadian securities regulators. Furthermore, our disclosure controls and procedures are designed to provide reasonable assurance that material information required to be disclosed under applicable Canadian securities regulation is communicated to our Management, including our President and Chief Executive Officer and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure; and
- Our internal control over financial reporting as of December 31, 2009 was designed and operated effectively to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Trust's financial statements for external purposes in accordance with GAAP.

PricewaterhouseCoopers LLP, our auditors, have expressed an unqualified opinion on the effectiveness of Canadian Oil Sands' internal control over financial reporting as of December 31, 2009, as stated in their report which appears herein.

Management's Report

Financial Information

Management is responsible for the information contained in this annual report. The Consolidated Financial Statements have been prepared in accordance with Canadian generally accepted accounting principles, and include amounts based on Management's informed judgments and estimates. Where alternative accounting methods exist, Management has chosen those that it deems to be the most appropriate based on Canadian Oil Sands' operations. The financial and operating information included in this annual report is consistent with that contained in the Consolidated Financial Statements in all material respects.

To assist Management in fulfilling its responsibilities, systems of accounting, internal controls and disclosure controls are maintained to provide reasonable, but not absolute, assurance that financial information is reliable and accurate and that assets are adequately safeguarded. In addition, Canadian Oil Sands has in place a Code of Business Conduct that applies to all of its employees and directors.

PricewaterhouseCoopers LLP, Chartered Accountants, appointed annually by the Unitholders to serve as Canadian Oil Sands' external auditors, were engaged to conduct an examination of the Consolidated Financial Statements and internal controls in accordance with Canadian generally accepted auditing standards and in accordance with the standards of the Public Company Accounting Oversight Board (United States), and have expressed their opinion on these statements. Canadian Oil Sands also engages independent reserve evaluators to conduct independent evaluations of its crude oil reserves and resources. The external auditors and reserve evaluators have unrestricted access to the Management of Canadian Oil Sands, the Audit Committee, the Reserves, Marketing Operations, and Environmental, Health and Safety Committee and the Board of Directors.

The Board of Directors has appointed a five-person Audit Committee, consisting of directors who are neither employees nor officers of Canadian Oil Sands and all of whom are independent. It meets regularly with Management and external auditors to discuss controls over the financial reporting process, auditing and other financial reporting matters. In addition, the Audit Committee recommends the appointment of Canadian Oil Sands' external auditors. The Audit Committee meets at least quarterly with Management and the external auditors to review and approve interim financial statements prior to their release and recommends the audited annual financial statements to the Board of Directors for their approval. Annually, the Board of Directors reviews and approves Canadian Oil Sands' annual financial statements, Management's Discussion and Analysis, AIF, Management Information Circular, and annual reserves estimates. The Board of Directors has approved the annual audited Consolidated Financial Statements and the Management's Discussion and Analysis based on the recommendations of the Audit Committee.

Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting.

Management has assessed the effectiveness of Canadian Oil Sands' internal control over financial reporting as of December 31, 2009 using criteria established in the *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, Management concluded that Canadian Oil Sands' internal control over financial reporting was effective as of December 31, 2009.

PricewaterhouseCoopers LLP, our auditors, has audited the effectiveness of Canadian Oil Sands' internal control over financial reporting as of December 31, 2009 as stated in their report which appears herein.

(signed) **Marcel R. Coutu**
President & Chief Executive Officer
February 23, 2010

(signed) **Ryan M. Kubik**
Chief Financial Officer
February 23, 2010

Independent Auditors' Report

To the Unitholders of
Canadian Oil Sands Trust

We have completed integrated audits of Canadian Oil Sands Trust's 2009 and 2008 consolidated financial statements and of its internal control over financial reporting as at December 31, 2009. Our opinions, based on our audits, are presented below.

Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Canadian Oil Sands Trust (the "Trust") as at December 31, 2009 and December 31, 2008, and the related consolidated Statements of Income and Comprehensive Income and Unitholders' Equity and Cash Flows for the years then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits of the Trust's financial statements as at December 31, 2009 and December 31, 2008 and for each of the years then ended in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. A financial statement audit also includes assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Trust as at December 31, 2009 and December 31, 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Internal Control Over Financial Reporting

We have also audited the Trust's internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). The Trust's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report. Our responsibility is to express an opinion on the effectiveness of the Trust's internal control over financial reporting based on our audit.

We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

An entity's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. An entity's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and directors of the entity; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Trust maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009 based on criteria established in *Internal Control – Integrated Framework* issued by the COSO.

(signed) **PricewaterhouseCoopers LLP**
Chartered Accountants
Calgary, Alberta
February 23, 2010

Consolidated Statements of Income and Comprehensive Income

For the years ended December 31 *($ millions, except per Trust Unit amounts)*	**2009**	2008
Revenues	**$ 2,779**	$ 4,543
Expenses		
Operating	**1,328**	1,368
Non-production	**141**	78
Crude oil purchases and transportation expense	**164**	374
Crown royalties *(Note 21)*	**228**	599
Administration	**24**	17
Insurance	**9**	6
Interest, net *(Note 17)*	**93**	68
Depreciation, depletion and accretion *(Note 6)*	**570**	444
Goodwill impairment *(Note 7)*	**52**	–
Foreign exchange loss (gain) *(Note 14)*	**(161)**	159
	2,448	3,113
Earnings before taxes	**331**	1,430
Future income tax recovery *(Note 13)*	**(101)**	(93)
Net income	**432**	1,523
Other comprehensive loss, net of income taxes		
Reclassification of derivative gains to net income	**(3)**	(3)
Comprehensive income	**$ 429**	$ 1,520
Weighted-average Trust Units *(millions)*	**484**	481
Trust Units, end of year *(millions)*	**484**	482
Net income per Trust Unit:		
Basic *(Note 15)*	**$ 0.89**	$ 3.17
Diluted *(Note 15)*	**$ 0.89**	$ 3.16

See Notes to Consolidated Financial Statements.

Consolidated Statements of Unitholders' Equity

For the years ended December 31 *($ millions)*	**2009**	2008
Retained earnings		
Balance, beginning of year	**$ 1,362**	$ 1,643
Net income	**432**	1,523
Unitholder distributions *(Note 18)*	**(435)**	(1,804)
Balance, end of year	**1,359**	1,362
Accumulated other comprehensive income		
Balance, beginning of year	**21**	24
Other comprehensive loss, net of income taxes	**(3)**	(3)
Balance, end of year	**18**	21
Unitholders' capital		
Balance, beginning of year	**2,524**	2,500
Issuance of Trust Units *(Note 15)*	**63**	24
Balance, end of year	**2,587**	2,524
Contributed surplus		
Balance, beginning of year	**3**	5
Exercise of employee stock options	**–**	(3)
Stock-based compensation *(Note 16)*	**2**	1
Balance, end of year	**5**	3
Total Unitholders' equity	**$ 3,969**	$ 3,910

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheets

As at December 31 *($ millions)*	**2009**	2008
ASSETS		
Current assets		
Cash and cash equivalents	**$ 122**	$ 279
Accounts receivable	**354**	184
Inventories *(Note 5)*	**133**	93
Prepaid expenses	**7**	5
	616	561
Property, plant and equipment, net *(Note 6)*	**6,289**	6,277
Other assets		
Goodwill *(Note 7)*	**–**	52
Reclamation trust *(Note 12)*	**48**	43
	$ 6,953	$ 6,933
LIABILITIES AND UNITHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities *(Note 8)*	**$ 284**	$ 284
Current portion of employee future benefits *(Note 9)*	**17**	17
	301	301
Employee future benefits and other liabilities *(Note 9)*	**104**	99
Long-term debt *(Note 11)*	**1,163**	1,258
Asset retirement obligation *(Note 12)*	**389**	235
Future income taxes *(Note 13)*	**1,027**	1,130
	2,984	3,023
Unitholders' equity	**3,969**	3,910
	$ 6,953	$ 6,933

Commitments, Contingencies, and Guarantees *(Notes 22, 23 and 24, respectively)*

See Notes to Consolidated Financial Statements.

Approved by the Board of Directors

(signed) **Wesley R. Twiss**
Director

(signed) **Donald J. Lowry**
Director

Consolidated Statements of Cash Flows

For the years ended December 31 *($ millions)*	**2009**	2008
Cash from (used in) operating activities		
Net income	**$ 432**	$ 1,523
Items not requiring an outlay of cash		
Depreciation, depletion and accretion	**570**	444
Goodwill impairment *(Note 7)*	**52**	–
Foreign exchange loss (gain) on long-term debt	**(200)**	204
Future income tax recovery	**(101)**	(93)
Net change in deferred items	**1**	(39)
Funds from operations	**754**	2,039
Change in non-cash working capital *(Note 25)*	**(207)**	202
Cash from operating activities	**547**	2,241
Cash from (used in) financing activities		
Issuance of Senior Notes *(Note 11)*	**574**	–
Repayment of medium term and Senior Notes *(Note 11)*	**(471)**	(150)
Net drawdown (repayment) of bank credit facilities *(Note 10)*	**–**	(16)
Unitholder distributions *(Note 18)*	**(372)**	(1,804)
Issuance of Trust Units *(Note 15)*	**–**	21
Cash used in financing activities	**(269)**	(1,949)
Cash from (used in) investing activities		
Capital expenditures	**(409)**	(281)
Reclamation trust funding	**(5)**	(6)
Change in non-cash working capital *(Note 25)*	**(2)**	6
Cash used in investing activities	**(416)**	(281)
Foreign exchange loss on cash and cash equivalents held in foreign currency *(Note 14)*	**(19)**	–
Increase (decrease) in cash and cash equivalents	**(157)**	11
Cash and cash equivalents, beginning of year	**279**	268
Cash and cash equivalents, end of year	**$ 122**	$ 279
Cash and cash equivalents consist of:		
Cash	**$ 18**	$ 18
Short-term investments	**104**	261
	$ 122	$ 279

Supplementary Information *(Note 25)*

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

(Tabular amounts expressed in millions of Canadian dollars, except where otherwise noted)

1) Structure of Canadian Oil Sands Trust

Canadian Oil Sands Trust (the "Trust") is an open-ended investment trust formed under the laws of the Province of Alberta in October 1995 pursuant to a trust indenture ("Trust Indenture") that has since been amended and restated. Computershare Trust Company of Canada is appointed as Trustee under the Trust Indenture. The beneficiaries of the Trust are the holders ("Unitholders") of the Units ("Units") in the Trust.

Through its subsidiary, Canadian Oil Sands Limited ("COSL"), the Trust indirectly owns a 36.74 per cent interest ("Working Interest") in the Syncrude Joint Venture ("Syncrude"). Syncrude is involved in the mining and upgrading of bitumen from oil sands in Northern Alberta and is operated by Syncrude Canada Ltd. ("Syncrude Canada").

2) Summary of Accounting Policies

Consolidation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada ("GAAP") and include the accounts of the Trust and its subsidiaries (collectively, "Canadian Oil Sands"). The activities of Syncrude are conducted jointly with others and, accordingly, these financial statements reflect only Canadian Oil Sands' proportionate interest in such activities, which include the production, operating costs, non-production costs, Crown royalty expenses, property, plant and equipment capital expenditures, inventories, employee future benefits and other liabilities, asset retirement obligation, and associated amounts payable and receivable. Substantially all operations of Canadian Oil Sands are carried out through the joint venture.

Cash and Cash Equivalents

Investments with maturities of less than 90 days at purchase are considered to be cash equivalents and are recorded at cost, which approximates fair value.

Property, Plant and Equipment

Property, plant and equipment ("PP&E") includes oil sands assets and interests in natural gas licenses located in the Arctic Islands in Northern Canada (the "Arctic assets"). The oil sands assets are recorded at cost and include the costs of acquiring the Working Interest and costs that are directly related to the exploration, development and construction of oil sands projects. Included in the oil sands assets are asset retirement costs associated with Canadian Oil Sands' asset retirement obligations. Overburden removal, turnaround costs and repairs and maintenance are expensed in the period incurred.

Oil sands assets are depreciated and depleted over their estimated remaining lives by using a unit-of-production method based on estimated reserve life. For purposes of estimating depreciation and depletion, the Trust's capital costs include future capital costs expected to be necessary in the recovery of the estimated reserves.

An impairment test is applied to the oil sands assets to ensure that capitalized costs do not exceed management's estimate of future undiscounted revenues from proved and probable reserves, less transportation, operating expenses, Crown royalties, future capital costs and non-production costs. If it is determined that the net recoverable amount is less than the net carrying amount, a write-down to the fair value is taken and charged to earnings in the period. The Trust performs this test at least annually or more frequently if there is an indication that asset impairment has potentially occurred.

The Arctic assets are recorded at cost and include the costs of acquiring the varying interests in natural gas licenses located in the Arctic Islands in Northern Canada. The Arctic assets are not yet developed. A test for impairment of the Arctic assets is performed at least annually or sooner if events or changes in circumstances indicate that their carrying amount may not be recoverable. If it is determined that the net recoverable amount is less than the net carrying amount, a write-down to the fair value is taken and charged to earnings in the period.

Goodwill

Goodwill represents the excess of the purchase price over the accounting fair value of the identifiable assets and liabilities acquired in a business combination. Goodwill is tested annually for impairment, or when events or changes in circumstances indicate that its carrying amount may not be recoverable. If it is determined that the net recoverable amount of the underlying assets that gave rise to the goodwill is less than the net carrying amount of such assets, a write-down to the fair value of goodwill is taken and charged to income in the period.

Inventories

Inventories are valued at the lower of average cost and their net realizable value.

Asset Retirement Obligation

The estimated fair value of the Trust's share of Syncrude's asset retirement obligations is recognized on the Trust's Consolidated Balance Sheets. Syncrude's reclamation obligations relate to the site restoration of each mine site. The discounted full amount of the liability is recorded upon initial land disturbance or when a reasonable estimate of the fair value of the reclamation expenditures can be determined. The fair value is determined by estimating the timing and amounts of the future reclamation expenditures, and discounting the expenditures using a credit-adjusted risk-free rate applicable to the Trust. The asset retirement cost is equal to the estimated fair value of the asset retirement obligation and is capitalized as part of the Trust's PP&E. The asset retirement obligation is accreted based on the Trust's credit-adjusted risk-free rate and the accretion expense is included in the Trust's depreciation, depletion and accretion ("DD&A") expense in the Consolidated Statements of Income and Comprehensive Income.

Actual reclamation payments are charged against the accumulated asset retirement obligation when incurred.

Revenue Recognition

Revenues from the sale of synthetic crude oil and other products are recorded when title passes from Canadian Oil Sands to a third party. Revenues are recorded inclusive of hedging gains and losses, if any, from foreign currency exchange rate and crude oil hedge contracts.

Employee Future Benefits

Canadian Oil Sands accrues its proportionate share of obligations as a joint venture owner in respect of Syncrude Canada's employee benefit plans and the related costs, net of plan assets. The cost of employee pension and other retirement benefits is actuarially determined using the projected benefit method based on length of service and reflects Syncrude's best estimate of the expected performance of the plan investment, salary escalation factors, retirement ages of employees and future health care costs. The expected return on plan assets is based on the fair value of those assets. Past service costs from plan amendments are amortized on a straight-line basis over the estimated average remaining service life of active employees ("EARSL") at the date of amendment. The excess of any net actuarial gain or loss exceeding 10 per cent of the greater of the benefit obligation or fair value of the plan assets is amortized over the EARSL. At December 31, 2009, EARSL was approximately 12 years.

Future Income Taxes

Canadian Oil Sands follows the liability method of accounting for income taxes. Under this method, future income taxes are calculated as the difference between the accounting and income tax basis of an asset or liability, referred to as temporary differences, tax effected using substantively enacted, or enacted income tax rates expected to be in effect, when such temporary differences reverse. Future income tax balances recorded on the Consolidated Balance Sheets are adjusted to reflect changes in temporary differences and income tax rates, with the adjustments being recognized in net income in the period that the changes occur.

Non-Monetary Transactions

Canadian Oil Sands exchanges crude oil batches with third parties in the normal course of operations. These transactions lack commercial substance and are therefore recorded at carrying value without the recognition of a gain or loss.

Stock-Based Compensation

Canadian Oil Sands recognizes stock-based compensation expense in its Consolidated Statements of Income and Comprehensive Income for all Unit options ("options") granted with a corresponding increase to contributed surplus in Unitholders' Equity. Canadian Oil Sands determines compensation expense based on the estimated fair values of the options at the time of grant, the cost of which is recognized in net income over the vesting periods of the options.

Canadian Oil Sands also recognizes stock-based compensation expense related to its performance units ("PUPs"), which are awards granted to Canadian Oil Sands officers, other select employees and consultants and its affiliates under Canadian Oil Sands' Performance Unit Incentive Plan (the "Incentive Plan"). Canadian Oil Sands determines compensation expense based on the estimated fair values of the PUPs, the cost of which is recognized in net income over the vesting periods of the PUPs. No issuances of Units from treasury under this Incentive Plan have occurred and instead employees in such Incentive Plan receive cash, or cash is used by Canadian Oil Sands to purchase Units for the employees in the secondary market.

As an owner in Syncrude, Canadian Oil Sands records its share of costs for Syncrude Canada's stock-based compensation programs. Syncrude Canada's programs include Incentive Phantom Share Units Plan ("Phantom Units") and Incentive Restricted Share Plan ("Restricted Units"), both of which require settlement by cash payments. Compensation expense for the Phantom Units and Restricted Units is recognized in net income over the shorter of the normal vesting period and the period to eligible retirement if vesting is accelerated on retirement. Canadian Oil Sands' share of the change in the fair values of the vested Phantom Units and Restricted Units, which are based on market-related values of various Syncrude owners' shares/units at period ends, is recognized in operating expense in the year the change occurs.

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates in effect at the end of the period, with the resulting gain or loss recorded in the Consolidated Statements of Income and Comprehensive Income. Revenues and expenses are translated into Canadian dollars at average exchange rates. Translation gains and losses on U.S. dollar denominated long-term debt are unrealized until repayment of the debt obligations. All other translation gains and losses are classified as realized.

Net Income per Trust Unit

Canadian Oil Sands applies the treasury stock method to determine the dilutive impact, if any, of options assuming they were exercised in a reporting period. The treasury stock method assumes that all proceeds received by the Trust when options are exercised would be used to purchase Units at the average market price during the period.

Financial Instruments

All financial instruments are initially measured at fair value on the Consolidated Balance Sheets. Subsequent measurement of financial instruments is based on their classification as follows:

Classification	*Measurement*
Held for trading	Fair value with changes recognized in net income
Held to maturity	Amortized cost using effective interest method
Loans and receivables	Amortized cost using effective interest method
Available for sale	Fair value with changes recognized in other comprehensive income
Other liabilities	Amortized cost using effective interest method

Transaction costs are added to the amount of the associated financial instrument and amortized accordingly using the effective interest rate method.

Measurement Uncertainty

The preparation of the consolidated financial statements under GAAP requires management to make estimates and assumptions for many financial statement items based on its best estimates and judgments. Significant judgments and estimates relate to depreciation, depletion, impairment tests and asset retirement obligation costs as they are based on reserve engineering studies, environmental studies, new mine plans and price and cost estimates, which by their nature, are subjective and contain measurement uncertainty. The values of pension and other benefit plan accrued obligations and plan assets and the amount of pension costs charged to net income depend on certain actuarial and economic assumptions, which by their nature are subject to measurement uncertainty. The calculation of future income tax is based on assumptions, which are subject to uncertainty as to the timing and at which tax rates temporary differences are expected to reverse. Uncertainties related to various income tax positions exist because the timing of resolution and the impact on tax pool balances are not currently determinable. Accordingly, actual results may differ from estimated amounts as future events occur.

3) Changes in Accounting Policies

In 2009, the Trust adopted the requirements of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3064 *Goodwill and Intangible Assets*. The new section establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. The Section was effective for the Trust beginning January 1, 2009 and did not have a significant impact on the financial statements.

During 2009, CICA Handbook Section 3862 *Financial Instruments – Disclosures* was amended to require disclosure about the inputs to fair value measurements, including their classification within a hierarchy that prioritizes the inputs to fair value measurement. The fair value hierarchy has the following levels:

Level 1: quoted prices in active markets for identical assets or liabilities;
Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
Level 3: inputs for the asset or liability that are not based on observable market data.

The amendments are effective for the Trust for the year ended December 31, 2009, and additional disclosures as required are included in Note 20.

4) New Accounting Standards

International Financial Reporting Standards

In 2008, the CICA Accounting Standards Board confirmed that the adoption of International Financial Reporting Standards ("IFRS") would be effective for interim and annual periods beginning on or after January 1, 2011 for Canadian publicly-accountable enterprises. IFRS will effectively replace Canadian GAAP for these enterprises. Comparative IFRS information for the previous fiscal year will also be required.

Canadian Oil Sands has developed a plan to convert its consolidated financial statements to IFRS beginning January 1, 2011. Management is reviewing the impact that differences between IFRS and Canadian GAAP will have on accounting policies, information technology and data systems, internal control over financial reporting, disclosure controls and procedures, financial reporting, and business activities. Based on an analysis of these differences, the amounts reported under IFRS that may differ from Canadian GAAP on adoption include asset retirement obligations, employee future benefits, stock-based compensation and property, plant and equipment. The final impacts of these differences and other potential IFRS differences, if any, have not been quantified at this time.

5) Inventories

As at December 31	2009	2008
Materials and supplies	**$ 113**	$ 72
Product and linefill	**20**	21
	$ 133	$ 93

6) Property, Plant and Equipment, Net

December 31, 2009	Cost	Accumulated Depreciation and Depletion	Net Book Value
Oil sands assets	**$ 8,507**	**$ 2,253**	**$ 6,254**
Arctic assets	**165**	**130**	**35**
	$ 8,672	**$ 2,383**	**$ 6,289**
December 31, 2008			
Oil sands assets	$ 7,942	$ 1,830	$ 6,112
Arctic assets	165	–	165
	$ 8,107	$ 1,830	$ 6,277

DD&A expense is comprised of the following:

For the years ended December 31	2009	2008
Depreciation and depletion expense	**$ 423**	$ 430
Impairment of Arctic assets *(Note 7)*	**130**	–
Accretion expense	**17**	14
	$ 570	$ 444

7) Arctic Asset Impairment

During 2009, the Trust assessed its Arctic assets and related goodwill for impairment. Along with recent technological innovations that have increased access to natural gas shale resources, there continue to be delays in Arctic developments. The Trust has a "carried interest" in its Arctic resource which reduces risk; however, resource development is dependent on uncertain operator approvals. There are no proved reserves associated with the Arctic assets.

As a result of these uncertainties and their impact on the potential recovery of their carrying value, the Trust extended its assumed timing for development of the Arctic assets. Based on a net present value analysis which assumes a deferred project start date, additional depreciation and depletion of $130 million was recorded by the Trust. A goodwill impairment of $52 million has also been recorded. The net book value of the Arctic assets after the impairment is $35 million.

8) Accounts Payable and Accrued Liabilities

As at December 31	2009	2008
Due to Syncrude Joint Venture/Syncrude Canada Ltd.	**$ 246**	$ 250
Accrued liabilities	**17**	9
Interest payable	**21**	25
	$ 284	$ 284

Amounts due to the Syncrude joint venture/Syncrude Canada Ltd. typically include commercial trade payables and Crown royalties payable.

9) Employee Future Benefits and Other Liabilities

As at December 31	2009	2008
Employee future benefits (a)	$ 115	$ 110
Accrued variable compensation and other (b)	45	61
	$ 160	$ 171
Less current portion comprised of:		
Employee future benefits	(17)	(17)
Accrued variable compensation and other (included in accounts payable and accrued liabilities)	(39)	(55)
	$ 104	$ 99

a) Employee Future Benefits

Syncrude Canada has a defined benefit and two defined contribution plans providing pension benefits and other retirement and post-employment benefit ("OPEB") plans covering most of its employees. Other post-employment benefits include certain health care and life insurance benefits for retirees, their beneficiaries and covered dependants. The OPEB plan is not funded.

Defined Benefit Plan

Syncrude measures its accrued benefit obligation and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuation of the pension plans for funding purposes was completed in 2007 and was as of December 31, 2006. The next required valuation will be as of December 31, 2009.

Canadian Oil Sands' share of Syncrude Canada's defined benefit plan accrued liability, based on its 36.74 per cent ownership at December 31, 2009 and December 31, 2008, is comprised of its share of Syncrude Canada's accrued benefit obligation, partially offset by its share of Syncrude Canada's defined benefit plan assets as follows:

	Pension Benefit Plan		Other Post-Employment Benefits		Total	
As at December 31	2009	2008	2009	2008	2009	2008
Accrued benefit obligation:						
Balance, beginning of year	$ 503	$ 584	$ 41	$ 50	$ 544	$ 634
Current service cost	24	23	1	1	25	24
Interest cost	33	31	3	3	36	34
Transferred in	6	3	–	–	6	3
Benefits paid	(25)	(24)	(2)	(2)	(27)	(26)
Actuarial loss (gain)	43	(114)	5	(11)	48	(125)
Balance, end of year	$ 584	$ 503	$ 48	$ 41	$ 632	$ 544
Fair value of plan assets:						
Actuarial fair value, beginning of year	$ 288	$ 374	$ –	$ –	$ 288	$ 374
Actual return on plan assets	45	(99)	–	–	45	(99)
Employer contributions	36	33	–	–	36	33
Contributions – transfers	6	3	–	–	6	3
Benefits paid	(24)	(23)	–	–	(24)	(23)
Actuarial fair value, end of year	$ 351	$ 288	$ –	$ –	$ 351	$ 288
Funded status – plan deficit	$ (233)	$ (215)	$ (48)	$ (41)	$ (281)	$ (256)
Unamortized net actuarial loss	160	145	8	3	168	148
Unamortized past service costs	–	–	(2)	(2)	(2)	(2)
Accrued benefit liability	$ (73)	$ (70)	$ (42)	$ (40)	$ (115)	$ (110)

The asset allocation for Syncrude Canada's plan assets was as follows:

As at December 31	Percentage of Plan Assets	
	2009	2008
Equity securities	**71**	68
Debt securities	**29**	32
	100	100

Elements of defined benefit costs recognized in the year:

	Pension Benefit Plan		Other Post-Employment Benefits		Total	
For the years ended December 31	**2009**	2008	**2009**	2008	**2009**	2008
Current service cost	**$ 24**	$ 23	**$ 1**	$ 1	**$ 25**	$ 24
Interest cost	**33**	31	**3**	3	**36**	34
Actual return on plan assets	**(45)**	99	**–**	–	**(45)**	99
Actuarial loss (gain)	**43**	(114)	**5**	(11)	**48**	(125)
Elements of employee future benefit costs before adjustments to recognize the long-term nature of employee future benefit costs	**$ 55**	$ 39	**$ 9**	$ (7)	**$ 64**	$ 32
Adjustments to recognize the long-term nature of employee future benefit costs:						
Difference between expected return and actual return on plan assets	**20**	(132)	**–**	–	**20**	(132)
Difference between actuarial loss (gain) recognized for year and actual actuarial loss (gain) on accrued benefit obligation for year	**(35)**	121	**(5)**	12	**(40)**	133
	(15)	(11)	**(5)**	12	**(20)**	1
Defined benefit costs recognized in net income	**$ 40**	$ 28	**$ 4**	$ 5	**$ 44**	$ 33

Significant Assumptions

The significant assumptions adopted in measuring Syncrude Canada's accrued benefit obligations are as follows:

	Pension Benefit Plan		Other Post-Employment Benefits	
	2009	2008	**2009**	2008
Accrued benefit obligation as of December 31:				
Discount rate	**6.0%**	6.5%	**5.8%**	6.5%
Rate of compensation increase	**5.0%**	5.0%	**5.0%**	5.0%
Benefit costs for years ended December 31:				
Discount rate	**6.5%**	5.3%	**6.5%**	5.3%
Expected long-term rate of return on plan assets	**8.5%**	8.5%	**N/A**	N/A
Rate of compensation increase	**5.0%**	5.0%	**5.0%**	5.0%

For measurement purposes, a 10 per cent annual rate of increase in the cost of supplemental health care benefits was assumed for 2009 and 2008. The rate will begin to decrease in 2010 by 0.5 per cent each year to an ultimate rate of five per cent in 2019. In addition, an annual rate increase of four per cent in dental rates was used in 2009 and 2008.

Sensitivity Analysis

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans under other post-employment benefits. A one per cent increase in assumed health care cost trend rates would have increased the Trust's accrued benefit obligation by $6 million, and a similar decrease in rates would have decreased the Trust's obligation by $5 million. A one per cent change in such rates would not have had a material impact on the Trust's current service and interest costs.

Defined Contribution Plans

Canadian Oil Sands' share of Syncrude Canada's defined contribution pension plans was approximately $2 million in each of 2009 and 2008.

Total Cash Payments

Canadian Oil Sands' share of Syncrude's total cash payments for employee future benefits for 2009 was $42 million (2008 – $38 million), consisting of cash contributed by Syncrude Canada to its funded pension plans, cash to fund pension payments in excess of registered plan limits, cash payments directly to beneficiaries for its unfunded OPEB plans and cash contributed to its defined contribution plans.

b) Accrued Variable Compensation and Other

Syncrude Canada has short-term and long-term incentive plans that are cash settled. These plans include Syncrude Canada's employee retention program (Note 22) and stock-based compensation plans (Note 16). Accrued variable compensation and other consists primarily of the long-term portion of these plans. The accrued obligations for these plans are measured at their estimated fair values.

10) Bank Credit Facilities

As at December 31, 2009		
Extendible revolving term facility (a)	$	40
Line of credit (b)		70
Operating credit facility (c)		800
	$	910

The credit facilities of COSL, the operating subsidiary of the Trust, are unsecured. These credit agreements contain 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 per cent, or 65 per cent in certain circumstances involving acquisitions.

a) Extendible Revolving Term Facility

The $40 million extendible revolving term facility is a 364-day facility expiring April 22, 2010. 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. As at December 31, 2009, no amounts were drawn on this facility.

b) Line of Credit

The $70 million line of credit is a one-year revolving letter of credit facility. Letters of credit drawn on the facility mature April 30th each year and are automatically renewed, unless notification to cancel is provided by Canadian Oil Sands or the financial institution providing the facility at least 60 days prior to expiry. Letters of credit on this facility bear interest at a credit spread.

Letters of credit of approximately $70 million have been written against the line of credit as at December 31, 2009.

c) Operating Credit Facility

The $800 million operating facility is a multi-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. Unused amounts are subject to standby fees. As at December 31, 2009, no amounts were drawn on this facility.

11) Long-term Debt

As at December 31	2009	2008
5.55% Medium term notes due June 29, 2009 (a)	**$ –**	$ 200
4.8% Senior Notes due August 10, 2009 (b)	**–**	304
5.8% Senior Notes due August 15, 2013 (c)	**311**	364
7.75% Senior Notes due May 15, 2019 (d)	**520**	–
7.9% Senior Notes due September 1, 2021 (e)	**257**	301
8.2% Senior Notes due April 1, 2027 (f)	**75**	89
	$ 1,163	$ 1,258

Canadian Oil Sands' Senior Notes are unsecured, rank pari passu with other senior unsecured debt of COSL, and contain certain covenants that place limitations on the sale of assets and the granting of liens or other security interests.

a) 5.55% Medium term notes

The Trust repaid $200 million of 5.55% Medium term notes on June 29, 2009.

b) 4.8% Senior Notes

The Trust repaid U.S. $250 million of 4.8% Senior Notes on August 10, 2009.

c) 5.8% Senior Notes

On August 6, 2003, COSL issued U.S. $300 million of 5.8% Senior Notes, maturing August 15, 2013. Interest is payable on the notes semi-annually on February 15 and August 15.

d) 7.75% Senior Notes

On May 11, 2009, COSL issued U.S. $500 million of 7.75% Senior Notes, maturing May 15, 2019. Interest is payable on the notes semi-annually on May 15 and November 15.

e) 7.9% Senior Notes

On August 24, 2001, COSL issued U.S. $250 million of 7.9% 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 per cent.

f) 8.2% Senior Notes

On April 4, 1997, COSL issued U.S. $75 million of 8.2% Senior Notes, maturing April 1, 2027, and retired U.S. $1 million during 2000. Interest is payable on the notes semi-annually on April 1 and October 1.

g) Future Payments

Future payments payable under long-term debt, the total of which differs from the amortized cost balance recorded on the Consolidated Balance Sheets, are as follows:

2013	$ 314
After five years	862
	$ 1,176

12) Asset Retirement Obligation and Reclamation Trust

For the years ended December 31		2009		2008
Asset retirement obligation, beginning of year	**$**	**235**	$	226
Liabilities settled		**(25)**		(14)
Accretion expense		**17**		14
Change in estimate		**162**		9
Asset retirement obligation, end of year	**$**	**389**	$	235

Canadian Oil Sands and each of the other Syncrude owners are liable for their share of ongoing environmental obligations related to the ultimate reclamation of the Syncrude properties on abandonment. The Trust estimates reclamation expenditures will be made over approximately the next 60 years and has applied an average credit-adjusted risk-free discount rate of six per cent (2008 – six per cent) in deriving the asset retirement obligation.

Syncrude's upgrader facilities have indeterminate lives and therefore the fair values of the related asset retirement obligations cannot be reasonably determined. 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 facilities and the sulphur blocks will be recognized in the year in which the settlement amounts and dates can be reasonably estimated.

The total undiscounted estimated cash flows required to settle the Trust's share of Syncrude's obligation increased to $903 million at December 31, 2009 (2008 – $774 million) as a result of revised cost estimates.

The reclamation expenditures will be funded from Canadian Oil Sands' cash from operating activities and reclamation trust. In addition to this regular funding for reclamation expenditures, Canadian Oil Sands deposits $0.1322 per barrel of production attributable to its Working Interest to a reclamation trust established for the purpose of funding the operating subsidiary's share of environmental and reclamation obligations. As at December 31, 2009, the balance of the reclamation trust was $48 million (2008 – $43 million).

The Trust has posted letters of credit with the Province of Alberta in the amount of $70 million (2008 – $67 million) to secure its pro rata share of the reclamation obligations of the Syncrude participants.

13) Future Income Taxes

The tax provision recorded on the Consolidated Financial Statements differs from the amount computed by applying the combined Canadian federal and provincial income tax statutory rate to earnings before taxes as follows:

For the years ended December 31		2009		2008
Earnings before taxes	**$**	**331**	$	1,430
Statutory rates				
Federal		**29.00%**		29.50%
Federal abatement		**-10.00%**		-10.00%
Alberta provincial rate		**10.00%**		10.00%
		29.00%		29.50%
Expected taxes at statutory rate	**$**	**96**	$	422
Add (Deduct) the tax effect of:				
Net income attributable to the Trust – tax sheltered		**(126)**		(532)
Statutory rate adjustment for future tax rate reductions		**(63)**		–
Non-taxable portion of capital (gains) losses		**(29)**		21
Non-deductible portion of goodwill impairment		**15**		–
Other		**6**		(4)
Provision for taxes	**$**	**(101)**	$	(93)

During 2009, federal income tax legislation and regulations to adjust the deemed provincial component of the tax on distributions from income and royalty trusts in 2011 was passed. Under this legislation, the provincial component of the tax applicable to Canadian Oil Sands was reduced from 13 per cent to 10 per cent. A future income tax recovery of $63 million was recorded in 2009 on the substantive enactment of the legislation and regulations.

The amount shown on the Consolidated Balance Sheets as future income taxes represents the temporary difference of the Trust and its subsidiaries at substantively enacted tax rates expected to apply when the differences reverse.

Future income taxes are comprised of the following:

As at December 31	2009	2008
Capital and other assets in excess of tax value	**$ (1,596)**	$ (1,654)
Net liabilities in excess of tax value	**569**	524
Balance at December 31	**$ (1,027)**	$ (1,130)

As at December 31, 2009, the following are the estimated balances available for deduction against future taxable income:

As at December 31	2009
Canadian Oil Sands Trust:	
Canadian Development Expense	**$ 89**
Canadian Oil Sands Limited:	
Undepreciated Capital Costs ("UCC") [1]	
Federal UCC	**$ 1,591**
Provincial UCC	**$ 1,485**
Non-capital losses [2]	
Federal	**$ 206**
Provincial	**$ 171**
Scientific Research and Exploration Development	**$ 17**

1 *Approximately 41 per cent are deductible at an accelerated rate up to income from a mine, and the remaining balance is deductible at the declining balance rate of 25 per cent annually.*

2 *Federal and provincial non-capital losses expire in 2028.*

14) Foreign Exchange

In addition to the foreign exchange gain on long-term debt, Canadian Oil Sands also reported a foreign exchange loss of $39 million on other items during 2009. This loss was primarily due to a foreign exchange loss of $19 million on U.S. dollar cash held by Canadian Oil Sands from its May, 2009 financing to retire U.S. $250 million of debt in August, 2009.

15) Unitholders' Equity

a) Unitholders' Capital

The Trust is authorized to issue an unlimited number of ordinary Units pursuant to the Trust Indenture. The Units represent a beneficial interest in the Trust, share equally in all distributions from the Trust and carry equal voting rights. No conversion or pre-emptive rights, and limited retraction rights are attached to the Units. Units are redeemable at the option of the Unitholder at a price that is the lesser of 90 per cent of the average closing price of the Units on the principal trading market for the 10 trading days after the date of tender for redemption, and the closing market price on the date of tender for redemption, subject to restrictions on the amount to be redeemed each quarter.

During 2009, approximately three million Trust Units were issued (2008 – nil) for proceeds of $63 million under the Trust's Premium Distribution, Distribution Re-investment and Optional Unit Purchase Plan ("DRIP") with respect to the distributions paid on February 27 and May 29 of 2009.

In 2008, approximately two million Trust Units were issued for $24 million on the exercise of employee stock options.

The following table summarizes the Units that have been issued:

Date	Number of Units *(millions)*		Proceeds
Balance, January 1, 2008	479.4	$	2,500
Issued on exercise of employee options	2.2		24
Balance, December 31, 2008	481.6	$	2,524
Issued on February 27, 2009 under DRIP	1.7		33
Issued on May 29, 2009 under DRIP	1.2		30
Balance, December 31, 2009	484.5	$	2,587

The Trust has a Unitholder Rights Plan (the "Rights Plan") designed to provide the Trust and its Unitholders with sufficient time to explore and develop alternatives for maximizing Unitholder value if a takeover bid is made for the Trust. One right has been issued and attached to each issued and outstanding Unit. Rights issued under the Rights Plan become exercisable when a person and any related parties, have acquired or begins a takeover bid to acquire 20 per cent or more of the Units without complying with certain provisions in the Rights Plan. Should such an acquisition or announcement occur, each right entitles the holder, other than the acquiring person, to purchase Units at a 50 per cent discount to the market price.

b) Premium Distribution, Distribution Re-investment and Optional Unit Purchase Plan

In 2002, the Trust received regulatory approval in Canada for the DRIP. Eligible Unitholders are able to participate in the DRIP for the quarterly distributions payable subject to enrolment and certain other conditions. The DRIP allows eligible Unitholders to direct their distributions to the purchase of additional Units at 95 per cent of the Average Market Price, as defined in the DRIP. The DRIP also provides an alternative whereby eligible Unitholders can, under the premium distribution component, have their distributions invested in new Units and exchanged through the Plan broker for a premium distribution equal to up to 102 per cent of the amount that the other Unitholders would otherwise receive on the distribution date. Under the terms of the DRIP, Unitholders have the option to purchase additional Units for cash at 100 per cent of the Average Market Price if they participate in either of the premium distribution or distribution re-investment components of the DRIP.

In 2007, the Trust suspended the DRIP; however, in 2009, Canadian Oil Sands re-instated the DRIP for the first and second quarter distributions. The DRIP was subsequently suspended again in the third quarter of 2009. The Trust may re-instate the DRIP to fund future investing activities, if required.

c) Net Income per Unit

The following table summarizes the Units used in calculating net income per Unit:

As at December 31 *(millions)*	**2009**	2008
Weighted-average Trust Units outstanding, Basic	**484**	481
Effect of options	**–**	1
Weighted-average Trust Units outstanding, Diluted	**484**	482

16) Stock-based Compensation

Canadian Oil Sands' stock-based compensation includes stock option and performance unit plan grants for COSL employees pursuant to a long-term incentive program. In addition, Syncrude Canada has stock-based compensation plans for which Canadian Oil Sands records its Working Interest.

a) Canadian Oil Sands' Stock-based Compensation Plans

Canadian Oil Sands maintains two stock-based compensation plans, as described below.

Unit Incentive Option Plan

As at December 31, 2009 Canadian Oil Sands had 1,310,549 options issued under its Unit Incentive Option Plan. The initial exercise price is based on the price of the Units on the preceding day prior to the issuance of the options. Other than exceptions relating to retirement, death or termination, each option has a term of seven years and vests in equal amounts over a three-year period. For options outstanding, the exercise price is reduced in future periods by the amount of distributions in excess of a threshold set by the Board of Directors at the time of the grant.

The following options were issued and outstanding:

Date	Number of Options *(millions)*	Weighted-Average Exercise Price
Outstanding at January 1, 2008	2.6	$ 12.85
Granted in 2008	0.4	39.97
Exercised in 2008	(2.2)	(9.73)
Outstanding at December 31, 2008	0.8	$ 32.83
Granted in 2009	0.5	19.77
Outstanding at December 31, 2009	1.3	$ 27.85
Exercisable at December 31, 2008	0.2	$ 26.80
Exercisable at December 31, 2009	0.5	$ 30.73

	Number of Options Outstanding *(millions)*	Weighted-Average Remaining Life *(years)*	Weighted-Average Exercise Price
$18.85 – $29.01	0.9	5.4	$ 22.46
$31.62 – $43.26	0.4	5.2	39.47
	1.3	5.3	$ 27.85

The fair value of each option is estimated on the grant date using an option-pricing model. The weighted-average fair values of the options granted and the weighted-average assumptions used in their determination are as noted below:

For the year ended December 31	**2009**	2008
Risk-free interest rate *(%)*	**3.75**	3.95
Expected life *(years)*	**4.5**	4.5
Expected volatility *(%)*	**31**	28
Expected distribution per Unit *($)*	**0.60**	3.00
Fair value per stock option *($)*	**4.57**	4.15

Performance Unit Incentive Plan

Canadian Oil Sands has granted PUPs pursuant to its Incentive Plan during 2008 and 2009. The PUPs are earned on the third anniversary of the date of grant, at which time the holder is entitled to receive an amount either in the form of Units purchased in the secondary market or in cash, equal to the aggregate current market value of the number of Units subject to the PUPs. Currently, no Units are to be issued from treasury. The number of Units granted under the PUPs is dependent on the total unitholder return generated by the Trust at the end of the three years compared to a peer group, with the actual Unit equivalents earned ranging from zero to double the target award. At December 31, 2009 a total of 197,635 PUPs were outstanding (2008 – 117,726); however, no PUPs were vested at December 31, 2009 or 2008. In January of 2009, 34,345 PUPs vested and were paid out in cash for approximately $1.5 million.

Canadian Oil Sands recorded approximately $6 million of administration expense in 2009 (2008 – $2 million) related to its stock-based compensation plans.

b) Syncrude Canada's Stock-based Compensation Plans

Syncrude Canada maintains two stock-based compensation plans, as described below.

Incentive Restricted Share Units Plan

Syncrude Canada implemented its Restricted Units program in 2006 which awards Restricted Units to certain employees. The Restricted Units vest three years after the date of issuance and require settlement by cash payments. Employees who retire prior to the vesting period may be eligible to receive pro-rated Restricted Units based upon the ratio of service provided during the vesting period relative to the full vesting period. At the end of the vesting period, the cash settlement is based on the weighted-average price of the shares, or units, of certain Syncrude owners at that time and the total shareholder return of such owners' shares, or units, as compared to a relative peer group. At December 31, 2009 a total of 673,541 Restricted Units were outstanding (2008 – 424,499); however, no Restricted Units were vested at December 31, 2009 or 2008.

Incentive Phantom Share Units Plan

Syncrude Canada implemented a stock-based compensation plan during 2002 which awarded Phantom Units to certain employees. The Phantom Units have value if the composite value of the weighted-average stock price of 70 per cent of the Trust's Units and 30 per cent of various other Syncrude owners' public shares at the time of exercise by Syncrude Canada employees exceeds the issue price of the awards. The Phantom Units issued up to, and including 2005, had a term of seven years and vest based on a graded vesting schedule as follows: after the first year of issuance, 50 per cent of the Phantom Units are exercisable, 25 per cent the following year and the last 25 per cent after year three. Subject to exceptions relating to early retirement, death or termination, each Phantom Unit issued under this plan after 2005 has a term of seven years and vests in equal amounts over a three-year period. When the awards are exercised they are settled in cash. At December 31, 2009 a total of 2.1 million Phantom Units were outstanding (2008 – 1.3 million) and a total of 0.7 million Phantom Units were exercisable (2008 – 0.3 million).

In 2009, Canadian Oil Sands recorded an $11 million expense in operating expenses related to its share of Syncrude Canada's stock-based compensation expense as a result of an increase in the plan value (2008 – $9 million recovery).

17) Interest, Net

For the years ended December 31	**2009**	2008
Interest expense on long-term debt	**$ 94**	$ 76
Interest income and other	**(1)**	(8)
Interest expense, net	**$ 93**	$ 68

The increase in interest expense on long-term debt was mainly due to the refinancing of 2009 debt maturities with the U.S. $500 million 7.75 per cent Senior Notes issue in the second quarter of 2009.

18) Unitholder Distributions

Pursuant to Section 5.1 of the Trust Indenture, the Trust distributes all the income received or receivable by the Trust in a quarter less expenses and any other amounts required by law or under the terms of the Trust Indenture to be withheld. The Trust primarily receives income by way of a royalty and interest on intercompany loans from its operating subsidiary, COSL. The royalty is designed to capture the cash generated by COSL, 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 after considering the current and expected economic and operating conditions, ensuring financing capacity for Syncrude's expansion projects and/or Canadian Oil Sands' acquisitions, and with the objective of maintaining an investment grade credit rating.

The following statement of Unitholder distributions is provided to assist Unitholders in reconciling cash from operating activities to Unitholder distributions.

For the years ended December 31	2009	2008
Cash from operating activities	**$ 547**	$ 2,241
Add (Deduct):		
Capital expenditures	**(409)**	(281)
Change in non-cash working capital [1]	**(2)**	6
Reclamation trust funding	**(5)**	(6)
Change in cash and cash equivalents and financing, net [2]	**304**	(156)
Unitholder distributions	**$ 435**	$ 1,804
Unitholder distributions per Trust Unit	**$ 0.90**	$ 3.75

1 *From investing activities.*
2 *Primarily represents the change in cash and cash equivalents and net financing to fund the Trust's share of investing activities.*

Unitholder distributions during 2009 were funded by cash payments of $372 million and by the issuance of 2.9 million Trust Units for $63 million under the DRIP.

19) Capital Management

The Trust's capital consists of cash and cash equivalents, debt and Unitholders' equity. The balance of each of these items at December 31 was as follows:

As at December 31	2009	2008
Long-term debt	**$ 1,163**	$ 1,258
Cash and cash equivalents	**(122)**	(279)
Net debt [1]	**$ 1,041**	$ 979
Unitholders' equity	**$ 3,969**	$ 3,910
Total capitalization [2]	**$ 5,010**	$ 4,889
Net debt to total capitalization *(%)*	**21**	20

1 *Non-GAAP measure*
2 *Net debt plus Unitholders' equity*

Net debt increased to $1,041 million at December 31, 2009 from $979 million at December 31, 2008. This was primarily a result of capital expenditures, distributions and debt repayments exceeding cash from operating activities, DRIP proceeds and unrealized foreign exchange gains from the revaluations of the U.S. dollar denominated long-term debt.

The Trust's objective for managing capital is to maximize long-term Unitholder value by:

- ensuring financing capacity for Syncrude's oil sands-related investing activities;
- maintaining an investment grade credit rating and financial flexibility to allow the Trust to remain un-hedged on its crude oil price exposure; and
- distributing to Unitholders any cash that is not required for financing Syncrude's operations or capital investment growth opportunities.

As disclosed in Notes 10 and 11, the Trust is bound by certain debt covenants; however, these covenants do not specifically limit the Trust's ability to pay distributions. The Trust monitors its total debt-to-total book capitalization as it must be less than 55 per cent according to certain financial covenants. With a net debt-to-total capitalization of 21 per cent at December 31, 2009, the Trust is well within its limits and a significant increase in debt or decrease in equity would be required to negatively impact the Trust's financial flexibility.

As a result of the Canadian trust taxation legislation passed in June 2007, the Trust is subject to certain capital growth restrictions referred to as "normal growth" equity rules. These rules limit the amount of Unitholders' capital that can be issued by the Trust to approximately $14 billion in 2010. If the maximum equity growth allowed is exceeded, the Trust may be subject to trust taxation prior to 2011.

In addition to growth capital restrictions, the Trust also monitors its foreign ownership levels to the extent possible given the practical limitations regarding beneficial ownership information. The Trust Indenture, under which the Trust was created, provides that no more than 49 per cent of the Units of the Trust can be held by non-Canadian residents. The potential impact of breaching this threshold may be the loss of mutual fund trust status, which may significantly adversely impact the valuation of the Units; however, once Canadian Oil Sands converts to a corporate structure at the end of 2010, this limitation will no longer apply.

At December 31, 2009, the Trust's best estimate of the foreign ownership level was 28 per cent, based on residency declarations made as of November 20, 2009.

20) Financial Instruments

The Trust's financial instruments include cash and cash equivalents, accounts receivable, reclamation trust investments, accounts payable, accrued liabilities and long-term debt. The carrying values of the Trust's financial instruments and their related categories at December 31, 2009 are as follows:

	Held for Trading	Loans and Receivables	Available for Sale	Other Liabilities	Total Carrying Value
Cash and cash equivalents	$ 122	$ –	$ –	$ –	$ 122
Accounts receivable	–	354	–	–	354
Reclamation trust	–	–	48	–	48
Accounts payable and accrued liabilities	–	–	–	284	284
Long-term debt	–	–	–	1,163	1,163
	$ 122	$ 354	$ 48	$ 1,447	$ 1,971

Fair Values

Cash and cash equivalents and reclamation trust short-term investments are carried at fair value on the balance sheet. The fair values of accounts receivable and accounts payable and other liabilities approximate their carrying values due to the short-term nature of those instruments. The fair value of long-term debt, based on third-party market indications, is as follows:

As at December 31		**2009**		2008
	Carrying Amount	**Estimated Fair Value**	Carrying Amount	Estimated Fair Value
5.55% Medium term notes due June 29, 2009	**$ –**	**$ –**	$ 200	$ 202
4.8% Senior Notes due August 10, 2009 (U.S.$250 million)	**–**	**–**	304	302
5.8% Senior Notes due August 15, 2013 (U.S.$300 million)	**311**	**339**	364	330
7.75% Senior Notes due May 15, 2019 (U.S.$500 million)	**520**	**611**	–	–
7.9% Senior Notes due September 1, 2021 (U.S.$250 million)	**257**	**307**	301	279
8.2% Senior Notes due April 1, 2027 (U.S.$73.95 million)	**75**	**83**	89	77
	$ 1,163	**$ 1,340**	$ 1,258	$ 1,190

Fair value hierarchy

The Trust's only financial instruments carried at fair value on the Consolidated Balance Sheets are cash and cash equivalents and the reclamation trust short-term investments. Both of these instruments are included in level one in the fair value hierarchy, as described in Note 3 – Change in accounting policies.

Deferred Currency Hedging Gains

As a result of changes in CICA Handbook sections in 2007, the Trust's deferred currency hedging gains at December 31, 2006 were recognized as accumulated other comprehensive income ("AOCI"). The amount recorded in AOCI is being reclassified to net income over the remaining term of the original hedged item.

Financial Instrument Risk Management

As at December 31, 2009 and 2008, Canadian Oil Sands had no financial risk management positions outstanding.

Foreign Currency Risk

Canadian Oil Sands' results are affected by fluctuations in the U.S./Cdn 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 high of $1.03 U.S./Cdn to a low of $0.77 U.S./Cdn, closing out at $0.96 U.S./Cdn at December 31, 2009. 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. Senior Notes mature, we have exposure to U.S. dollar exchange rates on the principal repayment of the notes. This repayment of U.S. dollar debt acts as a partial economic hedge against the U.S. dollar denominated revenue payments we receive from our customers.

In the past, the Trust has hedged foreign currency exchange rates by entering into fixed rate currency contracts. The Trust did not have any foreign currency hedges in place at December 31, 2009, and as at February 23, 2010, we do not intend to enter into any new currency hedge positions. The Trust may, however, hedge foreign currency exchange rates in the future, depending on the business environment and growth opportunities.

As at December 31, 2009, portions of Canadian Oil Sands' cash and cash equivalents, accounts receivable, accounts payable and long-term debt were denominated in U.S. dollars. Based on these U.S. dollar financial instrument closing balances, 2009 net income and other comprehensive income would have increased/decreased by approximately $10 million for every $0.01 decrease/increase in the value of the U.S./Canadian exchange rate.

Interest Rate Risk

Canadian Oil Sands' results, particularly our net interest expense, are impacted by U.S. and Canadian interest rate changes because our credit facilities and investments are exposed to floating interest rates. In addition, we are exposed to the refinancing of maturing long-term debt at prevailing interest rates. As at December 31, 2009, no amounts were drawn on the credit facilities and the next debt maturity is in 2013. Since the refinancing of approximately U.S. $500 million in maturing long-term debt obligations was completed in May, 2009, the Trust did not have a significant exposure to interest rate risk based on the amount of floating rate debt or investments outstanding during the year.

Liquidity Risk

Liquidity risk is the risk that Canadian Oil Sands will not be able to meet its financial obligations as they come due. Canadian Oil Sands actively manages its liquidity through daily and longer term cash, debt and equity management strategies. Such strategies encompass, among other factors: having adequate sources of financing available through its bank credit facilities, estimating future cash generated from operations based on reasonable production and pricing assumptions, analysis of economic hedging opportunities, and compliance with debt covenants.

Information regarding the amount of available credit facilities and contractual maturities of Canadian Oil Sands' long-term debt can be found in Notes 10 and 11, respectively, to the Consolidated Financial Statements. Canadian Oil Sands was in compliance with its debt covenants as at December 31, 2009.

In addition, we are exposed to liquidity risk to the extent we have financing requirements related to significant capital or operating commitments. Over the long-term, Canadian Oil Sands manages these risks by spreading out the maturities of its various debt tranches and maintaining a prudent capital structure.

The timing of cash outflows relating to financial liabilities are outlined below:

	Cash outflow by period				
($ millions)	Total	< 1 year	1 – 3 years	4 – 5 years	After 5 years
Accounts payable and accrued liabilities	284	284	–	–	–
Long-term debt [1]	1,993	86	571	135	1,201

[1] *Actual payments differ from the carrying value as the amounts are stated at amortized cost plus interest payment commitments on the long-term debt.*

Credit Risk

Canadian Oil Sands is exposed to credit risk primarily through its trade accounts receivable balances with customers, 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 maximum exposure to any one customer or financial counterparty is controlled through a credit policy that limits exposure based on credit ratings. The policy also specifically limits the exposure to customers with a credit rating below investment grade to a maximum of 25 per cent of Canadian Oil Sands' consolidated accounts receivable. This credit risk concentration is monitored on a regular basis. Risk is further mitigated as accounts receivable with customers typically are settled in the month following the sale, and investments with financial counterparties are typically short-term in nature and are placed with institutions that have a credit rating of "A" or better.

The Trust's maximum credit exposure related to customer receivables was $329 million at December 31, 2009 (2008 – $167 million). At December 31, 2009, the vast majority of our accounts receivable balance was due from investment grade energy producers and refinery-based customers. At December 31, 2009, our cash and cash equivalents were held in either cash or term deposits with high-quality senior Canadian banks. The Trust did not have any material derivative contracts in place as at December 31, 2009. At present, there are no financial assets that are past their maturity or impaired due to credit risk-related defaults.

The financial condition of some of our U.S. based refinery customers has come under pressure during 2009 and into early 2010, reflecting low refinery margins during the economic downturn. Canadian Oil Sands carries credit insurance to help mitigate the impact should a loss occur and continues to transact primarily with investment grade customers.

21) Crown Royalties

In 2008, Canadian Oil Sands and the other Syncrude owners exercised their option to convert to a bitumen-based Crown royalty. Effective January 1, 2009, Syncrude calculates 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 synthetic crude oil ("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, deductible costs in calculating Crown royalties will be reduced in future years by approximately $5 billion ($1.8 billion net to the Trust), resulting in future Crown royalties of approximately $1.25 billion plus interest ($459 million plus interest net to the Trust) over a 25-year period. The cost reductions relate 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.

Also in 2008, Canadian Oil Sands and the other Syncrude owners reached an agreement with the Alberta government on terms to transition the Syncrude Project to Alberta's New Royalty Framework. Under the agreement, the Syncrude owners pay the greater of 25 per cent of net deemed bitumen revenues, or one per cent 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 of less than 345,000 barrels per day over the period and is payable in six annual installments in respect of the following periods:

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

22) Commitments

Canadian Oil Sands is obligated to make future cash payments under existing contractual agreements that it has entered into either directly or as an owner in Syncrude. The following commitments that relate to Syncrude reflect Canadian Oil Sands' Working Interest in the joint venture.

a) Management Services Agreement

Effective November 1, 2006, Syncrude Canada entered into a comprehensive Management Services Agreement with Imperial Oil Resources Ltd. ("Imperial Oil") to provide operational, technical and business management services to Syncrude Canada. The agreement has an initial term of 10 years, with five-year renewal provisions. Either Syncrude Canada or Imperial Oil has the option to cancel the agreement on 24 months notice for any reason. Canadian Oil Sands' 36.74 per cent share of the annual fixed fee payable to Imperial Oil for the first 10 years under the agreement is $17 million per year. After the first three years through to year 10, variable performance fees will also apply based on the achievement of certain performance targets. Such variable fees may be comparable to the fixed fee component if Syncrude Canada realizes a corresponding benefit through higher production and/or lower per barrel operating costs.

b) Natural Gas Purchase Commitments

Syncrude has entered into purchase commitments for natural gas deliveries at floating market–related prices. While the majority of the commitments expire in 2010, there is one long-term natural gas supply contract that expires on October 31, 2011. Canadian Oil Sands' 36.74 per cent share of these commitments is 28 million gigajoules.

c) Pension Plan Solvency Deficiency Payments

The last actuarial valuation was completed in 2007 for Syncrude Canada's defined benefit pension plan and it requires payments to fund the pension plan solvency deficiency. Canadian Oil Sands' share of these funding requirements is $94 million over the next 12 years.

d) Expenditure Commitments

Canadian Oil Sands is committed to remaining costs of approximately $290 million related to its share of Syncrude's Emissions Reduction project, the majority of which are expected to be incurred over the next two years.

Syncrude introduced employee retention and employee housing incentive programs for permanent Fort McMurray-based employees. Each began on April 1, 2009 and end on March 31, 2012 and March 31, 2019, respectively. Syncrude's estimated commitment related to the programs is $284 million, or $104 million net to Canadian Oil Sands.

Syncrude has various vendor commitments owing in 2010 and 2011 for non-capital items of which the more significant purchases total $90 million, or $33 million net to Canadian Oil Sands.

e) Pipeline Commitments

Canadian Oil Sands has a long-term agreement with Alberta Oil Sands Pipeline Limited ("AOSPL") to transport production from the Syncrude plant gate to Edmonton, Alberta. The agreement provides for reimbursement on a cost of service basis, including operating expenses, cash taxes paid, and a return on the depreciated rate base. The agreement commits Canadian Oil Sands to pay its proportionate share of the cost of service whether or not it ships any volumes on the pipeline. The projected cost of service for 2010 is $19 million and it is expected to average $20 million through to 2035.

23) Contingencies

a) Tax Disputes

For the period prior to 2000, the tax filings for COSL's predecessors, Canadian Oil Sands Investments Inc. ("COSII") and Athabasca Oil Sands Investments Inc. ("AOSII"), have been reassessed and closed. AOSII's and COSII's 2000, 2001, and 2002 tax returns have been reassessed by the Canada Revenue Agency ("CRA") and Notices of Objection have been filed pertaining to the Syncrude Remission Order and other items. A similar action had been previously instituted by Imperial Oil and accordingly, Canadian Oil Sands' action is being held in abeyance until the Imperial Oil action is determined. During 2009, the Court of Appeal which reviewed the 2008 favorable ruling in respect to this dispute found partially against Imperial Oil. On January 29, 2010, Imperial Oil requested leave to appeal the decision to the Supreme Court of Canada and Imperial Oil is still waiting results of such request. The resolution of this dispute regarding the Syncrude Remission Order is not expected to result in significant additional cash taxes being paid, but, an unfavorable resolution would reduce the amount of tax pools available for carry forward. Timing of the resolution of this issue and the impact on tax pool balances could not be determined at December 31, 2009.

b) General

Various suits and claims arising in the ordinary course of business are pending against Syncrude Canada, the operator of the Syncrude Project for the Syncrude joint venture owners. While the ultimate effect of such actions cannot be ascertained at this time, in the opinion of the Trust's management and in consultation with its legal counsel, the liabilities that could reasonably be expected to arise from such actions would not be significant in relation to the operations of Syncrude. Syncrude Canada, as well as Canadian Oil Sands and the other Syncrude owners, also have claims pending against various parties, the outcomes of which are not yet determinable.

24) Guarantees

Canadian Oil Sands has posted performance standby letters of credit with the Province of Alberta which are renewed annually. The letters of credit guarantee to the Province of Alberta the reclamation obligations of Canadian Oil Sands' interest in future reclamation of the Syncrude mine sites. The Province of Alberta can draw on the letters of credit if Syncrude fails to perform its reclamation duties on its mine sites. The maximum potential amount of payments Canadian Oil Sands may be liable for pursuant to these letters of credit is $70 million.

25) Supplementary Information

a) Change in Non-cash Working Capital

For the years ended December 31		**2009**		2008
Operating activities				
Accounts receivable	**$**	**(170)**	$	195
Inventories		**(40)**		9
Prepaid expenses		**(2)**		1
Accounts payable and accrued liabilities		**–**		(5)
Less: A/P and A/R changes reclassed to investing and other		**5**		2
Change in operating non-cash working capital	**$**	**(207)**	$	202
Investing activities				
Accounts receivable	**$**	**(9)**	$	–
Accounts payable and accrued liabilities		**7**		6
Change in investing non-cash working capital	**$**	**(2)**	$	6

b) Interest and Taxes Paid

For the years ended December 31		**2009**		2008
Income tax paid	**$**	**–**	$	–
Interest paid	**$**	**92**	$	74

c) Major Customers

In connection with the marketing and sale of Canadian Oil Sands' own synthetic crude oil for the year ended December 31, 2009, the Trust had one customer (2008 – one) that accounted for more than 10 per cent of consolidated revenues. This customer is a major international integrated energy company with a high quality, investment grade credit rating. Sales to this customer were approximately $713 million (2008 – $837 million).

26) Subsequent Event

On January 28, 2010, the Board of Directors of Canadian Oil Sands Limited approved a proposed transaction providing for the reorganization of the Trust and its assets into a corporate structure pursuant to a Plan of Arrangement (the "Arrangement"). If the reorganization is approved by the Unitholders of the Trust and the Court of Queen's Bench of Alberta, Canadian Oil Sands will convert to a corporation on or about December 31, 2010.

Glossary and Abbreviations

Alberta oil sand(s) deposits The four deposits, Athabasca, Peace River, Cold Lake and Wabasca, have total resources in place estimated at 1.7 trillion to 2.5 trillion barrels. The Athabasca Oil Sands deposit, Alberta's largest and most accessible source of bitumen, contains more than one trillion barrels of bitumen over an area encompassing more than 30,000 square kilometers.

Bitumen The molasses-like substance that comprises up to 18% of oil sands. Bitumen, in its raw state, is black, asphalt-like oil. It requires upgrading or blending to make it transportable by pipeline and usable by conventional refineries.

Carbon dioxide (CO_2) A non-toxic gas produced from decaying materials, respiration of plant and animal life, and combustion of organic matter, including fossil fuels; carbon dioxide is the most common greenhouse gas produced by human activities.

Cokers Vessels in which bitumen is cracked into its fractions and from which coke is withdrawn in the process of converting bitumen to upgraded crude oil.

Conventional oil Petroleum found in liquid form, flowing naturally, or capable of being pumped without further processing or dilution.

Debottleneck An undertaking to systematically remove plant capacity limitations through modifications of existing facilities and/or addition of capital facilities.

Feedstock(s) Raw material supplied to refinery, oil sands upgrader, or petrochemical plant.

Flue gas scrubber/desulphurizer Equipment that removes sulphur dioxide and other emissions.

Fluid coking A major part of the upgrading process whereby high temperatures in a coker break down the complex bitumen molecules, rejects carbon and causes bitumen molecules to reformulate into lighter fractions that become the main ingredients in upgraded crude oil.

Greenhouse gases Any of the various gases that contribute to the greenhouse effect.

Oil sand(s) A composition of sand, bitumen, mineral rich clays and water.

Oil sand(s) lease A long-term agreement with the provincial government which permits the leaseholder to extract bitumen, other metals and minerals contained in the oil sands in the specified lease area.

Ore grade The percentage of bitumen by weight in the oil sands.

Overburden Layer of rocky, clay-like material that lies under muskeg and above oil sands deposits.

Sulphur dioxide (SO_2) A compound of sulphur and oxygen produced by burning sulphur.

Synthetic crude oil A high-quality product resulting from the mining, extraction and upgrading of bitumen.

Tailings A combination of water, sand, silt and fine clay particles that is a by-product of removing bitumen from oil sand.

Tailings systems Separation of water from sand and clay to enable incorporation of solids into reclamation landscapes and recycling of water back into the operations.

Total volume to bitumen in place (TV/BIP) The ratio of total ore plus overburden volume to total bitumen in place.

Turnaround A unit shutdown essential for good maintenance of the mining, producing and upgrading facilities. A turnaround reduces production but does not usually halt it entirely as the various operating units are often duplicated.

Upgrader A facility that upgrades bitumen (extra heavy oil) into synthetic crude oil.

Upgrading The conversion of heavy bitumen into a lighter crude oil by increasing the ratio of hydrogen to carbon, either by removing carbon (coking) or adding hydrogen (hydroprocessing).

RESERVES AND RESOURCES DEFINITIONS

Proved Reserves 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% probability that the quantities actually recovered will equal or exceed the estimated proved reserves".

Proved plus Probable Reserves Additional reserves that are less certain to be recovered than proved reserves. NI 51-101 defines the certainty level as "at least a 50% 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".

Contingent Resources 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 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 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.

FINANCIAL METRICS

Netback Net realized selling price, after hedging, less operating costs and Crown royalties.

Net debt to cash from operating activities Net debt divided by cash from operating activities.

Net debt to total capitalization Net debt divided by net debt plus Unitholders' equity.

Return on average Unitholders' equity Net income divided by average Unitholders' equity.

Return on average productive capital employed Net income before net interest expense, future income taxes and unrealized foreign exchange gains and losses, divided by average net debt plus Unitholders' equity, excluding major expansion projects not yet in use.

ABBREVIATIONS

American Petroleum Institute specific gravity: **API**
barrel(s): **bbl, bbls**
barrel(s)/day: **bbl/d, bbls/d, bpd**
carbon dioxide: **CO_2**
gigajoule: **GJ**
greenhouse gases: **GHG(s)**
millions of barrels: **mmbbls**
sulphur dioxide: **SO_2**
Syncrude crude oil: **SCO**
thousands of barrels: **mbbls**
West Texas Intermediate: **WTI**

Statistical Summary

($ millions, except as indicated)	09	08	07	06	05
Financial					
Revenues, after crude oil purchases and transportation expense	**2,615**	4,169	3,250	2,432	1,967
Operating costs	**1,328**	1,368	1,034	907	731
Non-production costs	**141**	78	63	70	85
Crown royalties	**228**	599	485	232	19
Administration	**24**	17	20	17	12
Insurance	**9**	6	8	6	8
Interest, net	**93**	68	85	98	104
Depreciation, depletion and accretion	**570**	444	351	255	198
Foreign exchange loss (gain)	**(161)**	159	(117)	(5)	(29)
Future income tax expense (recovery) and other	**(101)**	(93)	579	17	8
Income (loss) from discontinued operations		–	1	(1)	–
Net income	**432**	1,523	743	834	831
Per Trust Unit [1] *($)*	**0.89**	3.17	1.55	1.79	1.81
Cash from operating activities	**547**	2,241	1,377	1,142	949
Per Trust Unit [1] *($)*	**1.13**	4.66	2.87	2.45	2.07
Unitholder distributions	**435**	1,804	791	512	184
Per Trust Unit [1] *($)*	**0.90**	3.75	1.65	1.10	0.40
Capital expenditures	**409**	281	183	300	800
Reserves *(billions of SCO bbls, net to COS)*					
Proved reserves	**1.0**	1.0	1.0	1.0	1.0
Proved plus probable reserves	**1.9**	1.8	1.8	1.8	1.8
Contingent resources	**1.8**	2.0	2.1	1.4	1.4
Prospective resources	**0.7**	0.8	0.8	N/A	N/A
Average daily sales *(bbls)* [2]	**103,129**	105,986	112,298	91,844	75,994
Operating netback *($/bbl)*					
Net realized selling price, after hedging	**69.47**	107.47 [3]	79.29	72.56	70.91
Operating costs	**35.29**	35.26	25.23	27.07	26.34
Crown royalties	**6.06**	15.44	11.83	6.93	0.71
Netback price	**28.12**	56.77	42.23	38.56	43.86
Financial ratios					
Net debt to cash from operating activities *(times)*	**1.9**	0.4	0.7	1.1	1.7
Net debt to total capitalization *(%)*	**21.0**	20.0	18.6	24.6	32.8
Return on average productive capital employed *(%)*	**6.7**	33.9	24.7	24.4	37.1
Return on average Unitholders' equity *(%)*	**11.0**	37.7	18.3	22.7	27.6
$/Trust Unit prices [1]					
High	**39.89**	55.25	38.88	38.75	28.60
Low	**16.65**	18.15	25.09	24.32	12.42
Close	**29.91**	21.10	38.71	32.61	25.20
Trading volume *(millions of Trust Units)*	**416.0**	463.6	373.8	406.6	356.9
Number of Trust Units outstanding *(in millions)*	**484.4**	481.6	479.4	470.9	462.6

1 Trust Unit information has been adjusted to reflect the 5:1 Unit split that occurred on May 3, 2006.
2 The Trust's sales volumes differ from its production volumes due to changes in inventory, which are primarily in-transit pipeline volumes, and are net of purchased crude oil volumes.
3 Revenue includes sulphur sales. Average net realized SCO selling price after transportation and hedging was $106.91 per barrel.

Unitholder Information

Officers

Donald J. Lowry
Chairman of the Board

Marcel R. Coutu
President and Chief Executive Officer

Ryan M. Kubik
Chief Financial Officer

Trevor R. Roberts
Chief Operations Officer

Allen R. Hagerman, FCA
Executive Vice President

Trudy M. Curran
General Counsel and Corporate Secretary

Robert P. Dawson
Treasurer

Darren K. Hardy
Vice President, Operations

Siren Fisekci
Vice President, Investor and Corporate Relations

Scott W. Arnold
Sustainability Officer

Board of Directors

Donald J. Lowry [2]
Chairman of the Board
Edmonton, Alberta

Ian A. Bourne [1,2]
Calgary, Alberta

Marcel R. Coutu
President and Chief Executive Officer
Canadian Oil Sands Limited
Calgary, Alberta

Donald F. Mazankowski [1]
Sherwood Park, Alberta

Wayne M. Newhouse [2,3]
Calgary, Alberta

Brant G. Sangster [1,3]
Calgary, Alberta

Wesley R. Twiss [2,3]
Calgary, Alberta

C.E. (Chuck) Shultz [1,2,3]
Chairman and Chief Executive Officer
Dauntless Energy Inc.
Calgary, Alberta

John B. Zaozirny, Q.C. [1,3]
Canaccord Financial Corporation
Calgary, Alberta

1 *Member of the Corporate Governance and Compensation Committee*
2 *Member of the Audit Committee*
3 *Member of the Reserves, Marketing Operations and Environmental, Health and Safety Committee*

Toronto Stock Exchange

COS.UN

Registrar and Transfer Agent

Computershare Trust Company of Canada, with offices in Vancouver, Calgary, Toronto, and Montreal, is the registrar and Transfer Agent for Canadian Oil Sands Trust. Computershare is also Trustee of the Trust.

Computershare Trust Company of Canada
600, 530 – 8th Avenue SW
Calgary, Alberta T2P 3S8
Attention: Corporate Trust Department
Telephone: 1 (800) 564-6253
Fax: (403) 267-6598
E-mail: service@computershare.com

Auditors

PricewaterhouseCoopers LLP
Chartered Accountants
Calgary, Alberta

Independent Qualified Reserves Evaluators

GLJ Petroleum Consultants Ltd
Calgary, Alberta

Internal Auditors

Deloitte & Touche LLP
Calgary, Alberta

Canadian Oil Sands Limited

2500 First Canadian Centre
350 – 7th Avenue S.W.
Calgary, Alberta T2P 3N9
Telephone: (403) 218-6200
Fax: (403) 218-6201

Investor and Media Contact

Siren Fisekci
Vice President, Investor and Corporate Relations
Telephone: (403) 218-6220
Fax: (403) 218-6201
Email: investor_relations@cos-trust.com

Notice of Meeting

Canadian Oil Sands' 2009 Annual and Special Meeting will be held in the Metropolitan Conference Centre, The Ballroom, 333 – 4th Avenue SW, Calgary, Alberta on Thursday, April 29, 2010 at 2:30 pm (MST). All Unitholders are invited to attend, and those unable to do so are requested to sign and return the form of proxy mailed with this report to ensure representation at the meeting. The meeting will be webcast on our website at www.cos-trust.com.

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Visit our website at www.cos trust.com for the online version of this annual report and much more.

We welcome your comments:

Canadian Oil Sands Limited
2500 First Canadian Centre
350   7 Avenue S.W.
Calgary, Alberta
Canada T2P 3N9

Telephone +1 403 218 6200
investor_relations@cos trust.com

TSX: COS.UN