Canadian Oil Sands

Invested In Our Energy Future

CANADIAN OIL SANDS LIMITED

ANNUAL INFORMATION FORM

For the Year Ended December 31, 2010

March 10, 2011

TABLE OF CONTENTS

GLOSSARY

"1506627" means 1506627 Alberta Ltd.;

"ABCA" means the *Business Corporations Act* (Alberta), R.S.A. 2000, c. B-9, as amended from time to time, including the regulations promulgated thereunder;

"AENV" means Alberta Environment;

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

"AEUB" means Alberta Energy Utilities Board;

"Alberta Crown Agreement" means the agreement dated as of February 4, 1975, and originally made between Alberta Royalty, Her Majesty the Queen in Right of Alberta, Her Majesty the Queen in Right of Canada, Ontario Energy Corporation, Imperial Oil Limited, Canada-Cities Service, Ltd. and Gulf Oil Canada Limited, as amended;

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

"AOSII" means Athabasca Oil Sands Investments Inc.;

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

"Canadian Arctic" means Canadian Arctic Gas Ltd.;

"Canadian Oil Sands", "COS", "us" or ***"we"*** means collectively the Corporation and all subsidiaries and partnerships of the Corporation;

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

"coker" means vessels in which bitumen is cracked into light fractions and coke is withdrawn to start the conversion process of bitumen to upgraded crude oil;

"***Common Shares*"** means the common shares in the capital of the Corporation;

"Corporation" means Canadian Oil Sands Limited, the continuing corporation resulting from the amalgamation of 1506633 Alberta Ltd. and COSL on December 31, 2010 pursuant to the Plan of Arrangement;

"***Corporate DRIP***" means the Premium Dividend, Dividend Reinvestment and Optional Share Purchase Plan of the Corporation made as of December 31, 2010;

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

"COSII" means Canadian Oil Sands Investments Inc.;

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

"COSMI" means Canadian Oil Sands Marketing Inc.;

"COSP" means Canadian Oil Sands Partnership #1, a general partnership formed under the laws of the Province of Alberta;

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

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

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

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

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

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

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

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

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

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

"MD&A" means our management's discussion and analysis for the year ended December 31, 2010;

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

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

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

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

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

"Plan of Arrangement" means the plan of arrangement in respect of the Reorganization;

"Reorganization" means the arrangement effected on December 31, 2010 under section 193 of the ABCA pursuant to which the Trust effectively converted from an income trust to a corporate structure, on the terms and conditions set forth in the Plan of Arrangement;

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

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

"SCO" means the synthetic crude oil produced by Syncrude, which may be SSB or SSP (as such terms are defined on page 7 of this AIF) or some other product type from time to time;

"SER" means Syncrude Emissions Reduction project, a project whose purpose focuses on mitigating an environmental impact by reducing sulphur dioxide and other emissions from the business;

"***Shareholders***" means the holders of the Common Shares of the Corporation;

"Stage 3" means the Syncrude expansion project designed to increase annual Syncrude productive capacity to about 129 million barrels and enhance the quality of our product, which was completed in 2006;

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

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

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

"Syncrude Participants" or ***"Participants"*** means COSP (36.74 per cent), Imperial Oil Resources (25 per cent), Suncor Energy Oil and Gas Partnership (12 per cent), Sinopec Oil Sands Partnership (9.03 per cent), Nexen Oil Sands Partnership (7.23 per cent), Mocal Energy Limited (5 per cent) and Murphy Oil Company Ltd. (5 per cent), as the corporations or partnerships that own the undivided interests in the Syncrude Project and their respective successors and assigns in interest from time to time;

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

"Syncrude Project" means (a) the scheme for recovery of oil sands, crude bitumen or products derived therefrom originally approved in Approval No. 1920 of the ERCB that was the successor to the AEUB and currently approved in Approval Nos. 8573 and 10781, as issued by the AEUB, as such scheme may be amended or superseded from time to time, (b) all property now owned or hereafter acquired or developed by the owners participating from time to time in such scheme or by SCL on their behalf in connection with such scheme, (c) the oil sands leases, and (d) any other scheme or schemes implemented for the purpose of recovering oil sands, crude bitumen or products derived from those oil sands leases related to such scheme or schemes and all property acquired or developed in connection with such scheme or schemes;

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

"total volume to bitumen in place (TV:BIP)" means the ratio of total ore plus overburden volume to total bitumen in place;

"Trust" means Canadian Oil Sands Trust, which was terminated pursuant to the Reorganization;

"Trust DRIP" means the Premium Distribution, Distribution Reinvestment and Optional Unit Purchase Plan of the Trust made as of January 23, 2002, as amended;

"TSX" means the Toronto Stock Exchange;

"Units" means the trust units of the Trust;

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

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

UNITS

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

Notes:

Unless otherwise specified:

(1) all information is as at December 31, 2010;

(2) all dollar amounts are expressed in Canadian dollars, all references to "dollars" or "$" are to Canadian dollars and all references to "US$" are to United States dollars; and

(3) Unit and Common Share information has been adjusted to reflect the 5:1 Unit split that occurred on May 3, 2006.

NON-GAAP FINANCIAL MEASURES

In our MD&A and this Annual Information Form ("AIF"), we refer to financial measures that do not have any standardized meaning as prescribed by Canadian generally accepted accounting principles ("GAAP"). These non-GAAP financial measures include cash from operating activities on a per Common Share basis, net debt, total capitalization, net debt to total capitalization and certain per barrel measures. Cash from operating activities per Common Share is calculated as cash from operating activities reported on the Consolidated Statement of Cash Flows divided by the weighted-average number of Common Shares outstanding in the period. This measure is an indicator of the Corporation's capacity to fund capital expenditures, dividends and other investing activities without incremental financing. In addition, the Corporation 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 Corporation. 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 Corporation's operational performance, its liquidity and its capacity to fund dividends, capital expenditures and other investing activities. Users are cautioned that non-GAAP financial measures presented by the Corporation may not be comparable with measures provided by other entities.

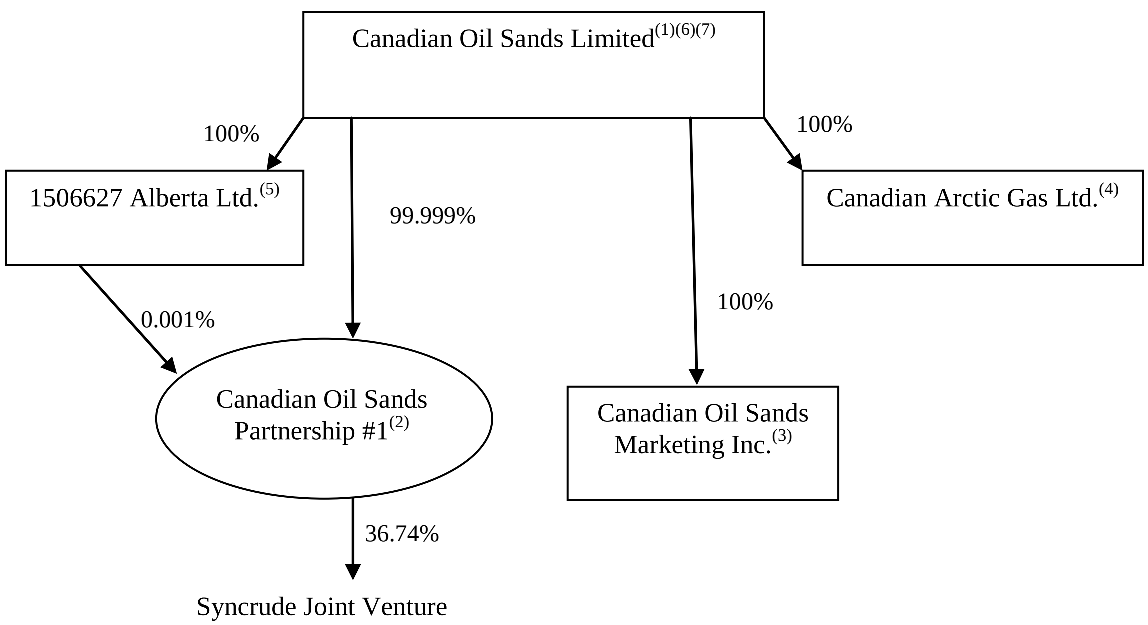
FORWARD-LOOKING INFORMATION ADVISORY

In the interest of providing Shareholders and potential investors of Canadian Oil Sands with information regarding Canadian Oil Sands, including the Corporation's assessment of Canadian Oil Sands' future plans and operations, certain statements throughout this AIF contain "forward-looking statements" under applicable securities laws. Forward-looking statements are typically identified by words such as "anticipate", "expect", "believe", "plan", "intend" or similar words suggesting future outcomes. Forward-looking statements contained in this AIF include, but are not limited to statements with respect to: the estimated value and amount of reserves recoverable and the time frame to recover such reserves; the estimated resources; the expectation that the SER project will significantly reduce total sulphur dioxide and particulate emissions; the anticipated cost and completion date for the SER project; the expectation that the MSA between SCL and Imperial Oil will lead to increased reliability and other benefits and that the costs associated with the MSA will not outweigh the benefits; the expected level of capital expenditures in 2011; the expected realized selling price, which includes the anticipated differential to West Texas Intermediate ("WTI") crude oil to be received for Canadian Oil Sands' product; the level and timing of growth in production volumes expected from the upgrader debottleneck and Aurora South development; plans regarding the mine train relocations/replacements; the belief that Syncrude can add production more easily than a greenfield operation; the belief that the mine train relocations/replacements will not impact production; the benefits of the Kearl Lake cooperation agreements; the cost savings and efficiencies from wet crushing technologies; the timing of the construction of the commercial scale pilot and commercial scale centrifuge plants; the development of the Aurora South Mine with a paraffinic froth treatment process to facilitate the sale of bitumen; the expectation regarding inflation and labour costs in the Wood Buffalo Region; the anticipated impact that certain factors such as natural gas and oil prices, foreign exchange rates and operating costs have on the Corporation's cash from operating activities and net income; the energy consumption levels for 2011 and beyond; the anticipated timing to reach full production rates at Syncrude; the expected impact that increased supplies of synthetic crude oil will have on the net realized selling price that Canadian Oil Sands receives for its product; the level of natural gas consumption; the expected impact of any announced or future environmental or climate change laws and regulation; Crown royalties payable in the future; and intentions and expectations regarding future dividend levels. You are cautioned not to place undue reliance on forward-looking statements, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will not occur. Although Canadian Oil Sands believes that the assumptions and expectations represented by such forward-looking statements are reasonable and reflect the current views of Canadian Oil Sands with respect to future events, there can be no assurance that such assumptions and expectations will prove to be correct. Some of the risks and other factors which could cause actual results or events to differ materially from current expectations expressed in the forward-looking statements contained in this AIF include, but are not limited to: the impacts of regulatory changes especially those which relate to royalties, taxation and the environment; the impact of technology on operations and processes and how new complex technology may not perform as expected; labour turnover and shortages and the productivity achieved from labour in the Fort McMurray area; uncertainty of estimates with respect to bitumen and SCO reserves and resources; the supply and demand metrics for oil and natural gas; the impact that pipeline capacity and refinery demand have on prices for our products; the variances of stock market activities generally; the obtaining of required owner approvals from the Syncrude Participants for expansions, operational issues and contractual issues; normal risks associated with litigation, regulatory changes and sanctions; volatility of crude oil and natural gas prices; market competition; Canadian Oil Sands' ability to either generate sufficient cash flow from operations to meet our current and future obligations or obtain external sources of debt and equity capital; the inability to continue to meet the listing requirements of the TSX; the inability to obtain required consents, permits or approvals; the impact of Syncrude being unable to meet the conditions of its approval for its tailings management plan under Directive 074; general economic, business and market conditions; various events which could disrupt operations including severe weather; timing of completion of capital or maintenance projects and such other risks and uncertainties described from time to time in our MD&A, which are incorporated by reference herein, in the Risk Factors section of this AIF, and in the reports and filings made with securities regulatory authorities by Canadian Oil Sands, as well as those assumptions outlined in Canadian Oil Sands' guidance document, as posted on Canadian Oil Sands' website as of the date hereof and as subsequently amended or replaced from time to time being correct, including without limitation, the assumptions as to production, operating costs and crude oil prices. You are cautioned that the foregoing list of important factors is not exhaustive. Furthermore, the forward-looking statements contained in this AIF are made as of the date of this AIF and unless required by law, Canadian Oil Sands does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise. The forward-looking statements contained in this AIF are expressly qualified by this cautionary statement.

ORGANIZATIONAL STRUCTURE

Canadian Oil Sands Structure

The following diagram sets forth the current organizational structure of Canadian Oil Sands.



Notes:

(1) The Corporation is a publicly traded entity whose Common Shares are listed for trading on the TSX under the symbol "COS".
(2) COSP carries on the crude oil marketing function in Canada previously carried on by COSL prior to the Reorganization and directly owns the working interest in Syncrude which was previously held by COSL. The Corporation is the managing partner of COSP.
(3) COSMI carries on the crude oil marketing function in the United States.
(4) Canadian Arctic holds certain Arctic natural gas interests.
(5) 1506627 is a partner of COSP.
(6) The Corporation is the successor to the Trust, following the conversion of the Trust from an income trust structure to a corporate structure pursuant to the Plan of Arrangement under the ABCA completed on December 31, 2010.
(7) The registered and head office of the Corporation is located at 2500 First Canadian Centre, 350 – 7th Avenue S.W., Calgary, Alberta T2P 3N9.

Intercorporate Relationships

The following table provides the name, the percentage of voting securities beneficially owned, or controlled or directed, directly or indirectly and the jurisdiction of incorporation, continuance or formation of the Corporation's material subsidiary and partnership as at March 10, 2011.

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

Notes:

(1) The total assets of this entity constituted more than 10 per cent of the consolidated assets of the Corporation at December 31, 2010 but the total revenues of this entity constituted less than 10 per cent of the consolidated revenues of the Corporation for the year-ended December 31, 2010.

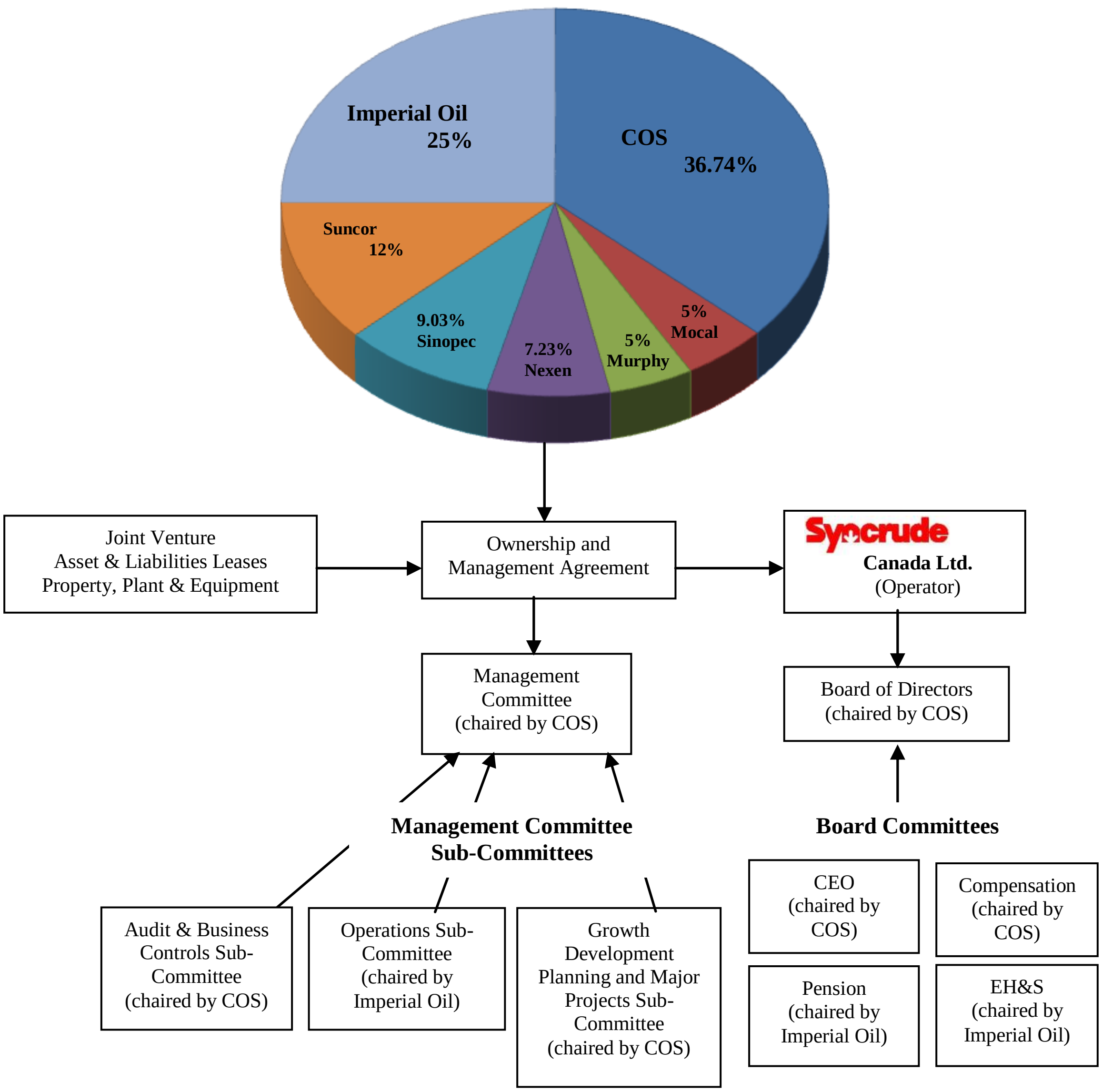
(2) The total revenues of COSMI constituted less than 10 per cent of the consolidated revenues of the Corporation for the year-ended December 31, 2010 and the total assets of COSMI were less than 10 per cent of the consolidated assets of the Corporation at December 31, 2010.

GENERAL DEVELOPMENT OF THE BUSINESS

Overview

We are the only public investment vehicle that provides a non-diversified ownership interest in Syncrude, a large oil sands open-pit integrated mining project. Syncrude is located near Fort McMurray, Alberta, Canada and operates oil sands mines, bitumen extraction plants, an upgrading complex that processes bitumen into a synthetic crude oil and utility plants. Syncrude produces a single high quality, light, sweet synthetic crude oil blend, referred to as "Syncrude™ Sweet Premium" ("SSP"), which has an average gravity of about 32° API, low sulphur content of less than 0.2 per cent, a diesel cetane level of approximately 40 and a fuel jet smoke of approximately 19. During 2007, the quality of Syncrude's finished synthetic crude oil blend was improved and Syncrude transitioned its production volumes from its historical Syncrude™ Sweet Blend ("SSB") quality level to the higher SSP quality. We use the terms "synthetic crude oil" or "SCO" to refer to Syncrude's production and sales volumes. The Corporation's business is its indirect ownership of Syncrude and the marketing and sales of SCO derived from such ownership, as well as other products related to such Syncrude interest.

The Syncrude Joint Venture is owned as various undivided interests by the Syncrude Participants and has produced SCO for over 30 years. The assets of the Syncrude Joint Venture are operated and managed by SCL, which is owned by the Syncrude Participants in the same proportions as their interest in the Syncrude Joint Venture. SCL is a single purpose company that employs Syncrude's workforce and retirement plans but has no significant tangible or capital assets. The Syncrude Management Committee governs the Syncrude Joint Venture and each Participant nominates a representative to the committee, which is charged with setting the strategic direction for and making decisions regarding the operation of the Syncrude Joint Venture.



Canadian Oil Sands Three Year History

Significant developments that have affected Canadian Oil Sands' business in the last three years include the following:

Reorganization

- On December 31, 2010, Canadian Oil Sands completed its reorganization from an income trust structure into a corporate structure with the result that the Trust was terminated and the business of the Trust is now carried on through the Corporation. Pursuant to the Reorganization, the Corporation and COSL amalgamated and all outstanding Units were exchanged on a one-for-one basis for Common Shares.

  Pursuant to the Reorganization, all outstanding options and performance grants of the Trust were converted, at the same number and on substantially the same terms, into options and performance grants of the Corporation. In addition, the Trust assigned its Trust DRIP and all associated agreements to the Corporation. The Corporation amended and restated such agreements so that the Trust DRIP continues in effect as the Corporate DRIP. Former Unitholders who were enrolled in the Trust DRIP at the effective date of the Reorganization will continue to be enrolled in the Corporate DRIP in respect of their Common Shares upon the exchange of their Units for Common Shares. Shareholders will not be entitled to receive any dividends under the Corporate DRIP though until they have exchanged their Units for Common Shares.

In connection with the Reorganization, the Corporation's interest in the Syncrude Joint Venture was transferred to COSP and COSP has taken over the marketing function in Canada previously carried on by COSL. COSP has no employees or officers of its own and instead contracts certain management, operational and administrative services from the Corporation.

Shelf Prospectus

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

Senior Notes

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

Crown Royalties

- To facilitate Syncrude's transfer to the Alberta government's New Royalty Framework, in 2008 an agreement was reached with the Alberta government regarding the maximum royalty payable to the Alberta government by the Syncrude Participants in respect of production from various leases in the Syncrude Project as to the greater of one per cent of gross deemed bitumen revenues and 25 per cent of net deemed bitumen revenues which include deductions for allowed applicable operating, non-production and capital costs related to the bitumen production up to and including December 31, 2015. Starting January 1, 2009, such payment is based on the deemed value of bitumen produced rather than the previous regime based on the value of SCO. The Syncrude Participants agreed to pay royalties based on 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 Corporation) for the period January 1, 2010 to December 31, 2015. The additional royalty of $975 million is reduced proportionally on bitumen production less than 345,000 barrels per day over the period and is payable in six annual instalments, in respect of the following period:

($Millions)

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

This agreement is in effect until December 31, 2015.

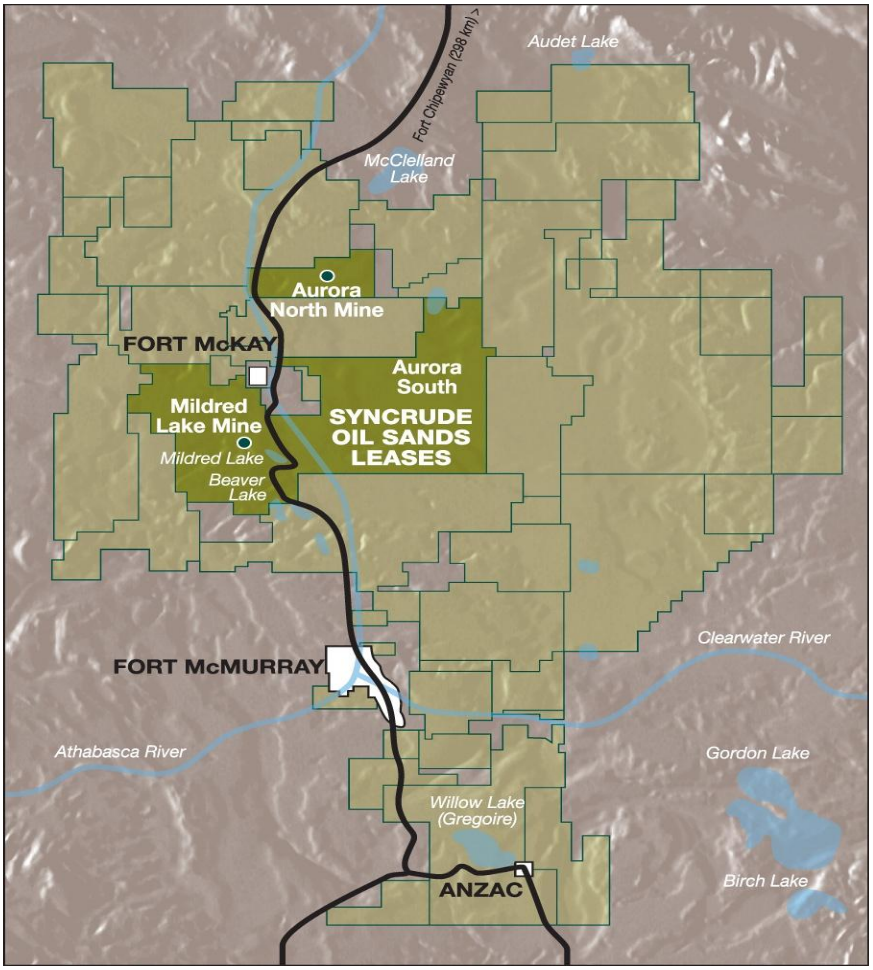
After 2015, the Syncrude Project will be subject to the New Royalty Framework that, since 2008, has applied to most of the oil sands industry. Currently, this generic royalty regime is based on a sliding scale rate that responds to Canadian dollar equivalent WTI ("C$-WTI") price levels. The minimum royalty will start at one per cent of deemed bitumen revenue and increase when C$-WTI oil is above $55 per barrel, to nine per cent of deemed bitumen revenue at $120 per barrel or higher. The net royalty rate will start at 25 per cent of net deemed bitumen revenue and rise for every dollar of C$-WTI increase above $55 per barrel up to 40 per cent of net deemed bitumen revenue at $120 per barrel or higher.

See "*Royalties and Taxes*" on page 31 of this AIF for a more detailed description of the Crown Royalties payable by Canadian Oil Sands.

Syncrude Overview

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

The Athabasca oil sands deposits are vast and the Syncrude leases contained in such deposits are illustrated in the following lease map. The resources and reserves estimates on pages 45 to 53 of this AIF that are contained in Syncrude's leases are all considered to be recoverable through surface mining, meaning that the layers of oil sands are found beneath a relatively shallow overburden layer. Approximately 20 per cent of the total Athabasca oil sands deposits are considered to be surface mineable with the other 80 per cent having the oil bearing layers too deep to be reached by surface mining and instead must be exploited using in-situ methods.



Notes:

(1) Mildred Lake Mines include the North Mine and the Base Mine. The Base Mine reserve has been depleted. Current operations are located in the North Mine.

(2) The dark green leases represent the Syncrude oil sands leases and the light green leases represent the leases of other oil sands operators.

Syncrude and other developers of the Athabasca oil sands have pioneered various technologies to mine the oil sands, extract the bitumen, and upgrade the bitumen into synthetic crude oil. Syncrude engineers and scientists continue to focus on technologies to improve the energy efficiency of the various processes, improve the product quality of the finished product, improve bitumen extraction recovery efficiencies and upgrading yield efficiencies, lessen the environmental impact of the various steps in the process and accelerate the reclamation of disturbed areas. Some examples of technological advancement include: low energy extraction, which is intended to reduce the amount of energy required to recover each barrel of bitumen and to reduce emissions; slurry hydrotransport, which is a process that uses pumping of an oil sands/water mixture rather than conveying solids with a view to reducing maintenance and operating costs in the material handling area; and froth pumping, which is an innovative way of pumping thick tar-like bitumen slurried with water rather than with hydrocarbon-based diluents, once again intended to reduce capital, energy and operating costs. The mine train replacements for Syncrude's North Mine plan to incorporate wet crushing technologies which are intended to improve bitumen recovery rates and reduce maintenance costs.

Syncrude Three Year History

Significant developments/investments that have affected the business and operations of Syncrude in the last three years include the following:

Directive 074

- In 2009, the ERCB issued Tailings Directive 074, Tailings Performance Criteria and Requirements for Oil Sands Mining Schemes ("Directive 074"). Directive 074 requires operators to prepare tailings plans and report on tailings ponds annually, reduce the solids content of fluid tailings through the capture of fine particles from the production process in dedicated disposal areas, and convert fines into trafficable deposits which are ready for reclamation five years after deposits have ceased. On April 23, 2010, the ERCB approved, with conditions, Syncrude's revised tailings pond plans submitted in September 2009 under Directive 074. The tailings pond plans include the implementation of three main tailings technologies: water capping; composite tails; and centrifuge technology. See "*Regulation of Operations*" on pages 29 to 31 of this AIF for a more detailed description of Directive 074.

Kearl Lake Cooperation Agreements

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

Management Services Agreement

- In 2006, SCL entered into the MSA with Imperial Oil, whose parent company is ExxonMobil. The MSA is two-pronged, focusing both on enhancing operational performance and pursuing Syncrude's future growth plans by accessing Imperial Oil and ExxonMobil's practices, systems and expertise. See "*Narrative Description of the Business*" on page 14 of this AIF for a more detailed description of the MSA.

SER Project

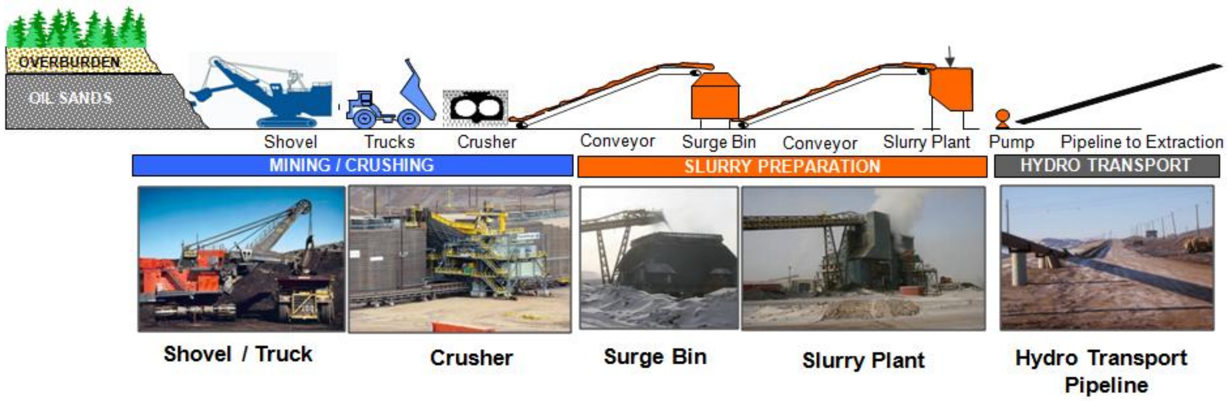
- In 2006, Syncrude commenced the SER project. The total cost of the SER project is expected to be $1.6 billion to Syncrude ($588 million net to the Corporation). It is designed to contribute to a 60 per cent reduction in sulphur compound emissions from current approved levels and reduce particulate emissions by 50 per cent. The project is expected to be completed in late 2011.

Capital Investments in 2011 and Beyond

Significant developments/investments that are expected to affect the business and operations of the Corporation and Syncrude in 2011 and beyond include the following:

- From 2011 to 2014, Syncrude plans to invest to sustain a stable, efficient foundation for future bitumen production and allow for storage of tailings in pit through the relocation or replacement of four out of Syncrude's five mine trains. In the North Mine, two new mine trains will be built to replace the existing trains. At Aurora North, two of our three mine trains will be dismantled and moved westward. Once completed, these four mine trains should remain in operation for 10 to 20 years. All of these mine train moves are necessary to vacate depleted pits to allow tailings placement. Production rates are not expected to be impacted by the North Mine mine train replacements because the new mine trains are expected to be built and operating before the old mine trains are decommissioned. Production rates are also not expected to be impacted by the Aurora North mine train relocations because the facility has three mine trains but only operates two mine trains at any given time so each mine train will be moved while the other two mine trains are operating. Canadian Oil Sands plans to spend $332 million on these mine train moves in 2011.

Mine Train



- Canadian Oil Sands plans to spend $114 million to complete the SER project in 2011.

- In 2011, Canadian Oil Sands plans to spend $176 million for tailings management initiatives involving the storage and transfer of tailings material. This investment is in accordance with Syncrude's plan submitted to the Alberta government under Directive 074. The tailings management initiatives are expected to be completed in 2014 or 2015.

- Canadian Oil Sands will direct $305 million towards regular maintenance of the business and other smaller capital projects in 2011.

- Over this decade, plans are being developed to expand both Syncrude's bitumen and SCO productive capacity. Syncrude plans to expand bitumen production through the development of leases at Aurora South with the construction of two new mine trains, each with a capacity of 100,000 barrels of bitumen per day. This project is in the pre-engineering phase and is scheduled to be completed in stages by the end of the decade. This plan is expected to raise Syncrude's total bitumen volumes to about 600,000 barrels per day. Roughly 150,000 barrels per day of bitumen is expected to be sold into the market, with the remaining bitumen upgraded to approximately 400,000 barrels per day of synthetic oil, based on the latest revisions to the upgrader debottleneck scope, referenced below. Syncrude is considering incorporating new technology in the construction of the Aurora South mine trains aimed at improving product quality. The improvement in product quality would allow for pipeline transportation and sales of surplus bitumen volumes. Syncrude also plans to grow the productive capacity of the upgrader by unlocking latent capacity through a series of debottleneck projects, believing that this will allow incremental SCO volumes to be brought on with lower risk and better rates of return than constructing a new upgrading facility.

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

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

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

NARRATIVE DESCRIPTION OF THE BUSINESS

Syncrude

Syncrude commenced production in 1978. Our proved plus probable reserves life provides a secure, long term source of bitumen for the production of SCO. Syncrude's facilities have the design capability to produce approximately 375,000 bbls/d when operating at full capacity under optimal conditions and with no downtime for maintenance or turnarounds. This daily production capacity is referred to as "barrels per stream day". Under normal operating conditions, scheduled downtime is required for maintenance and turnaround activities and unscheduled downtime will occur as a result of mechanical problems, unanticipated repairs and other slowdowns. When allowances for such downtime are included, the daily productive capacity of Syncrude's facilities is approximately 350,000 bbls/d on average and is referred to as "barrels per calendar day". Unless stated otherwise, all references to Syncrude's productive capacity refer to barrels per calendar day.

Production volumes reflect the capacity of the Syncrude facility and the reliability of its operations. However, the process of mining, extracting and upgrading bitumen is a highly technical and complex manufacturing operation that requires regular maintenance of the various operating units, which can affect production volumes and consequently revenues and operating costs. Maintenance work that occurs during the colder winter season may experience more time delays and operational issues due to extremely cold weather conditions. During these times, productivity of the mining operations may be reduced, resulting in temporary decreases of internally produced bitumen. Third party purchased bitumen supply may support marginally increased production during times when excess upgrading capacity is available, but the ability to import bitumen is limited to relatively small volumes. Syncrude is focused on improving reliability in the mining and extraction operations to meet the rising needs of the upgrader as production is increased to design capacity rates.

An oil sands operation such as Syncrude is essentially a manufacturing business, whereby reliability is a key factor as costs are largely fixed. If the facilities can process more barrels for the same costs, per barrel costs are reduced, enhancing project economics. Therefore, production volumes have a significant impact on per barrel operating costs and, if the plant is not operating, repair costs typically also are being incurred. One of the most significant production cost inputs is natural gas; accordingly, operating costs are also sensitive to changes in natural gas prices and natural gas volumes consumed in the production process.

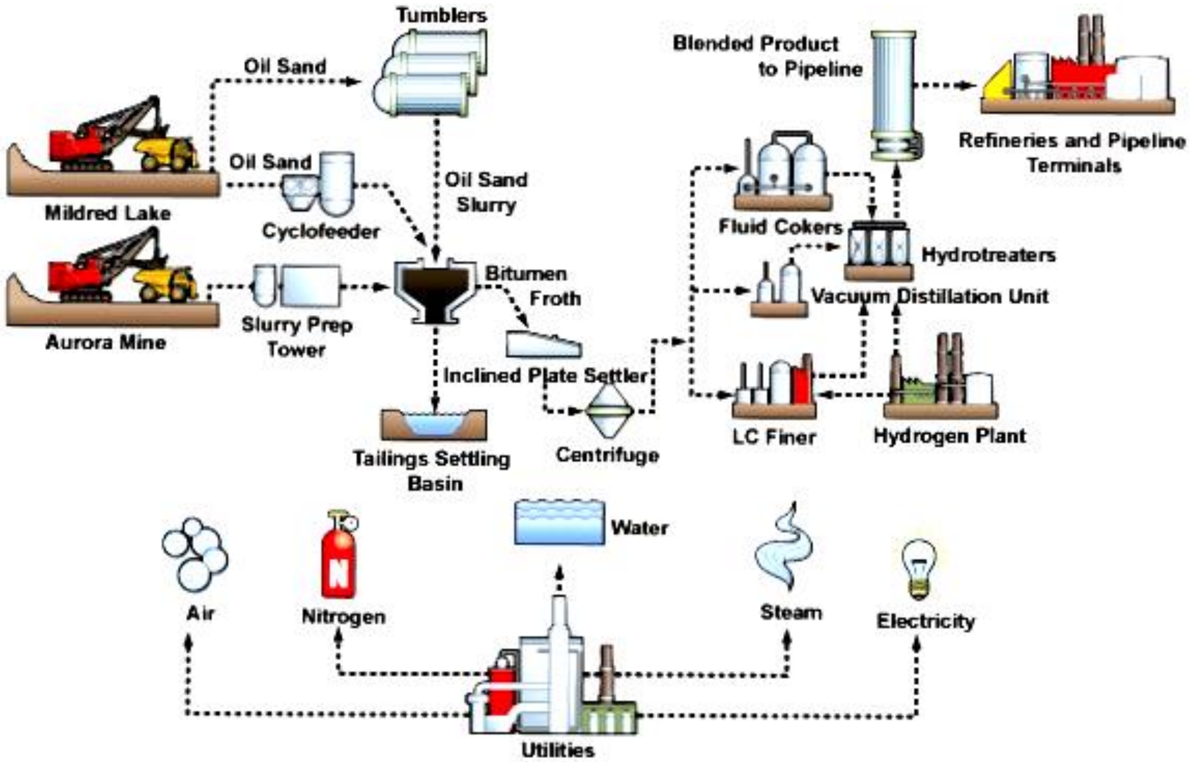
Syncrude is a vast and complex operation. The mines and extraction facilities are among the largest in the world, and the upgrading plants, which could be considered similar in nature to oil refineries, are also among the largest and most complex in the world. As such, a very strong focus on the basics of safety, environmental, operational and business excellence is imperative. We refer to these focus areas collectively as "operational excellence". In order to achieve the goal of operational excellence, Syncrude has identified the following objectives: improve the operational reliability and utilization of all of its operations; reduce unit operating costs; increase bitumen and upgrading productive capacity; improve environmental and energy efficiencies; and capture expansion-related economies of scale.

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

Pursuant to the MSA, Imperial Oil, with the support of ExxonMobil, has been implementing certain of their global practices in several areas including safety, maintenance and reliability, energy management, procurement, health, and environmental performance with the goal of delivering sustainable improvement in Syncrude's operating performance and project execution.

The MSA has an initial term of 10 years with renewal provisions. The MSA was effective November 1, 2006 and was further amended and restated as of May 1, 2007. Each of SCL and Imperial Oil has the option to terminate the MSA on 24 months' notice for any reason. Canadian Oil Sands pays its pro-rata share of the annual fixed service fees under the MSA equivalent to about $17 million ($47 million gross to SCL), plus its share of the direct costs that Imperial Oil incurs in providing the services. Following the initial ten year term, the annual fixed service fees drop to $12 million ($33 million gross to SCL). In years four (2010) through ten (2016), performance fee incentives similar in magnitude to the fixed fees also may apply if certain production and cost targets are achieved. In 2010, no performance fee incentives were earned as the targets were not achieved. If higher production levels, savings in energy efficiency, more effective prioritization and execution of capital costs, reduced maintenance and operating costs, and other efficiencies from new business control systems are achieved in the future, we believe that the value to be captured should exceed the fees paid under the MSA. Other than as disclosed herein, the MSA does not change the existing Ownership and Management Agreement between SCL and the Syncrude Participants. SCL remains the operator and employer of Syncrude's personnel. Ownership in the Syncrude Joint Venture remains unchanged, as does the proportionate ownership in SCL.

The Syncrude Operations



Mining

Syncrude currently mines oil sands from two mines: the North Mine, located near the Mildred Lake site, and the Aurora North Mine, located 35 kilometres northeast of the base operations site. During 2006 and 2007, mining activities were phased out of Syncrude's original Base Mine. The current mining operations utilize very large shovel excavators and mining haul trucks. This technology is known as "truck and shovel" mining. The larger shovels can excavate 100 tonnes in a single pass and the larger haul trucks can carry 400 tonnes of material from the mine face to the dumping location. In addition to Syncrude's fleet, Syncrude has and will continue to employ contractor trucks to increase material movements as the circumstances dictate.

The North Mine began operations in 1997 and contributed approximately 44 per cent of the total bitumen produced from Syncrude in 2010 (2009 – approximately 44 per cent). The Aurora North Mine began operations in 2000 and contributed approximately 56 per cent of the total bitumen produced from Syncrude in 2010 (2009 – approximately 56 per cent). The Base Mine began operations in 1978 and was exhausted in 2007. It is currently in the process of being backfilled with tailings and being progressively reclaimed.

Mining operations not only deal with oil sands excavation and delivery to extraction operations but also with overburden removal and disposition. Overburden is the sand and clay material found above the oil sands bearing layer in the Athabasca oil sands formations. It must be removed in order to expose the oil sands bearing layers for mining. In 2010, the total volume of overburden mined was approximately 328 million tonnes compared to 343 million tonnes in 2009 and 286 million tonnes in 2008, as Syncrude maintained the level of exposed ore inventory at the Mildred Lake and Aurora North mines.

Before any mining project begins, oil sands operators must develop and receive approval for closure plans that outline how affected areas will be reclaimed. At Syncrude, oil sands reclamation begins once the area is no longer being used as part of the active operation. The reclamation process begins after mining areas and tailings ponds have been returned to a trafficable land form, at or near grade. As such, environment reclamation includes the costs of:

- Landscape planning and design – to allow for appropriate vegetation patterns and faster reclamation as well as appropriate drainage.

- Reclamation material handling/placement - once the general shape of the land has been formed, reclamation material can be placed. This material is comprised of muskeg peat and organic matter which contains seeds and roots of plants.

- Re-vegetation and re-forestation - once the reclamation material has been placed, re-vegetation and re-forestation can begin. This includes levelling (to smooth the surface), fertilizing, contouring (to break apart any clumps that may have surfaced), seeding, and harrowing (to cover the seed which provides optimal conditions for germination)

- Ongoing monitoring - the soil is tested for various chemical and physical properties, and tree and shrub growth and health are monitored.

Reclamation also includes the costs of decommissioning utilities plants, bitumen extraction plants and the upgrading complex.

Alberta government certification takes many years from the time that reclamation activities are complete. Currently, reclamation certificates are only issued when long-term monitoring demonstrates the reclaimed land meets the objectives of equivalent land capability. The Alberta government has signalled its intention to adopt a Progressive Reclamation Framework which would enhance reclamation policies and practices by emphasizing the use of progressive reclamation practices by starting reclamation work on a site before operations are complete and investing in reclamation technology and research. The new framework would include an enhanced system for tracking and reporting of milestones associated with disturbance and reclamation. The Alberta government expects that full implementation of the new system will begin in early 2012.

Extraction

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

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

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

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

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

The material remaining after the bitumen is extracted from the oil sands consists of water, sand, fine clay particles and some residual hydrocarbons. This material is sent to a tailings settling basin where the solids settle to the bottom and the clarified water is recycled for re-use in the extraction process. Coarse solids settle rapidly, but fluid fine tailings can remain in suspension for many years, if not indefinitely. The rate at which the fine tailings settle out of the water is the subject of considerable research and development activity to identify the most cost effective and environmentally acceptable disposal method. Although some pits have been reclaimed, to date no tailings pond has been certified as reclaimed in the Alberta oil sands as tailings ponds remain an integral part of operating the facilities and, in particular, allow the recycling of water in the operations. The key tailings research and development initiatives proposed for the next few years include: optimization of the composite tailings process; reclamation of tailings deposits; managing recycle water chemistry; and development of supplementary technologies to manage fluid fine tailings from oil sand applications, including mature fine tailings centrifugation, accelerated mature fine tailings, dewatering and thickened tailings. Syncrude's Directive 074 tailings plan submission employs composite tailings technology, centrifuge technology and end pit lake bioremediation technology. A composite tails technology using the mature fine tailings from the settling basin to create solid, permanent landscapes in mined-out areas began application at the Mildred Lake site during 2000. Centrifuging mature fine tails uses mechanical energy to speed up the separation of water and fines freeing up water for reuse and producing a trafficable deposit that can be placed in a designated disposal area creating a dry landscape. Syncrude is continuing to develop the tailings centrifuge technology with a commercial scale pilot plant expected to be constructed in 2012 and a commercial scale plant expected to be constructed in 2015. End pit lake bioremediation technology places mature fine tails in a pit which is capped with fresh water. Natural microorganisms work to detoxify the process affected water and research indicates that aquatic life returns to the capped lakes in a few years. The return of tailings ponds to a trafficable surface in advance of reclamation activities is an operating expense of Canadian Oil Sands. See "*Regulation of Operations*" on pages 29 to 31 of this AIF for a more detailed description of tailings management.

One of the key performance metrics associated with the extraction operation is known as “recovery”. Recovery measures the volume of bitumen recovered from the oil sand as a per cent of the oil that was originally contained in the oil sand processed in the extraction plants. In 2010, this recovery factor was approximately 91 per cent (2009 – approximately 91 per cent). The recovery factors are primarily dependent upon operational reliability, ore quality and the extraction process utilized. The more reliable the operations, the higher the recovery rate tends to be.

Upgrading

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

Fluid coking involves the thermal cracking of bitumen molecules into lighter components. The by-products of this process include petroleum coke, CO gas and off gas. CO gas is used as fuel in CO boilers to generate steam and power for the facility. Off gas is used as fuel in the upgrader. The residual coke produced in the coker is slurried into a dedicated area of the tailings pond. The two original fluid cokers have been expanded in capacity over the years and, in 2010, each had a nominal capacity rating of approximately 105,000 bbls/d of a 50/50 mix of bitumen and heavier vacuum topped bitumen feed. This capacity was unchanged from the prior year. The third fluid coker, added as part of the Stage 3 expansion, has the same purpose as the original two cokers but is designed to process 95,000 bbls/d of 100 per cent vacuum topped bitumen.

The LC finer cracks bitumen molecules into lighter components via the addition of hydrogen and in the presence of a catalyst. This unit does not convert all of the bitumen to light products. An unconverted residual stream also is produced and this stream is sent to the fluid cokers to supplement the feed to those units. In 2010, the LC finer unit had a nominal capacity rating of approximately 50,000 bbls/d of a 60/40 mix of bitumen and vacuum topped bitumen feed.

One of the key performance metrics associated with the upgrading operation is referred to as “yield”. Yield measures the volume of finished products produced per volumetric measure of bitumen feedstock. In 2010, the upgrading yield was approximately 86 per cent, unchanged from approximately 86 per cent in 2009.

The lighter hydrocarbon components produced by the three fluid cokers, the LC finer, and those removed in the vacuum distillation unit are then sent to hydroprocessing units for further clean up, particularly for the removal of sulphur and nitrogen. Hydrotreating involves the removal of sulphur and nitrogen compounds via the addition of hydrogen in the presence of a catalyst. The hydrotreated components are then blended together into SCO. This SCO product contains no residuum and is low in sulphur, providing an attractive feedstock to refineries.

Production in 2010 totalled 107 million barrels, the second highest production year on record, compared with 102 million barrels in 2009. Higher production in 2010 relative to the prior year was primarily due to improved reliability combined with an extended shutdown of Coker 8-3 in 2009 to accommodate modifications. Production in 2007 was 111 million barrels, the highest production year on record.

Utilities and Offsites

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

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

One of the key operating cost metrics associated with the Syncrude operation is purchased energy consumed per barrel of SCO. In 2010, the purchased energy intensity was 1.10 GJ per barrel compared to 2009 which was 0.99 GJs per barrel. We estimate that long term consumption going forward will be about 0.85 GJs per barrel as additional hydrogen, which is derived from natural gas, is used to produce the higher quality SCO and as bitumen is increasingly sourced from the Aurora Mine. The Aurora North Mine relies mainly on purchased natural gas for its energy needs, as process heat from the upgrader is unavailable due to the mine's remoteness from the Mildred Lake plant. Purchased natural gas prices decreased to $3.87 per GJ in 2010 compared to $3.95 per GJ in 2009.

Natural gas, used by Syncrude to fuel operating plants and as feedstock in the production of hydrogen, is transported to Syncrude from Alberta's gas production and transmission infrastructure through dedicated pipelines. The gas is purchased from producers under various supply contracts to manage Syncrude's requirements.

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

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

Marketing

Each Syncrude Participant is responsible for marketing its own share of SCO and associated by-products, such as sulphur. After upgrading, the SCO is transported to markets in Canada and the U.S. through a system of inter-connected pipelines and storage locations. SCO is sometimes processed in refineries that have been specifically designed to benefit from SCO's unique properties. More often, however, it is purchased by refiners to blend with other crude oils to form a feedstock mixture which is suited to their specific refinery configuration. There are approximately 150 refineries in Canada and the U.S. Most refineries produce motor gasolines, diesel fuels, heating oils and jet fuels. Others can also produce asphalts, lubricants and petro-chemicals. There are three refineries in or near Edmonton, Alberta which have the capability of taking synthetic crude oil as 25 per cent to 100 per cent of their feedstock. These three refineries together consume approximately 190,000 to 240,000 barrels per day of synthetic crude oil.

Beginning in 2003, significant additions of synthetic crude oil production have come on-line, impacting where SCO is ultimately consumed. Despite the moderation in the pace of growth due to the global recession in 2008 and 2009, the production of synthetic crude oil from projects in the Fort McMurray, Edmonton and Hardisty areas of Alberta is expected to continue to increase. As additional volumes of synthetic crude oil come into the market, our sales are made to a broader group of refineries than was historically the case. While it is difficult to determine where our product is ultimately consumed, we anticipate that as our production volumes increase, the amount of synthetic crude oil production in Fort McMurray and surrounding areas increases, or the take-away pipeline capacity to additional markets in central and eastern U.S. increases that we will continue to see a greater percentage of our production being consumed outside of Western Canada given the limited refining capacity in that area.

The growing production of bitumen in Alberta has necessitated the need for additional diluents to thin the bitumen so that it can be transported in pipelines. Traditionally, natural gas condensates, a by-product of the natural gas processing industry, have been the most common hydrocarbon diluent used to thin heavy bitumen for pumping. However, the growth in natural gas condensate production has not kept pace with the rising production of bitumen and new forms of diluent have been required. Synthetic crude oil has emerged as one of those new sources of diluent. The trend of increased use of synthetic crude oil as a diluent, however, has moderated as pipeline reversals, such as Enbridge's Southern Lights project which was completed in 2010, have allowed for the import of condensate diluents from the U.S.

COSP takes title to SCO at Syncrude's plant gate and then the SCO is transported by a pipeline dedicated for use by the Syncrude Participants from Fort McMurray to Edmonton at which point, our SCO volumes are sold or arrangements are made for further transportation. Members of our marketing group hold positions on various crude oil and other committees of the Canadian Association of Petroleum Producers, focusing on ensuring that policy decisions reflect the unique needs of SCO oil producers.

In response to growing Western Canadian crude oil supply, two large pipeline projects were completed in 2010 which increased the take-away capacity from Western Canada. These projects were expected to result in significant excess pipeline capacity. Unfortunately, a leak on a pipeline that ships Western Canadian crude to downstream markets occurred and there was a temporary (two month) shut down of that pipeline and some resulting continuing pressure restrictions that have reduced the available pipeline capacity. Consequently, during the second half of 2010 there were periods of apportionment. Apportionment occurs when the demand for pipeline space exceeds the capacity of the pipeline and as a result the pipeline space is allocated to the various shipping companies. Once this capacity is returned to service, and as long as there are no more additional restrictions, it is expected that there will be enough capacity to move the expected supply out of Western Canada for the next few years. Furthermore, additional capacity to the U.S. Gulf Coast is currently planned to be built and is pending U.S. regulatory approval. A decision regarding final U.S. regulatory approval is expected in mid to late 2011.

Synthetic crude oil sales contracts are generally negotiated directly with refiners throughout North America, but Canadian Oil Sands also contracts with marketing and trading companies and other producers. Typical contract terms are based on 30, 60 or 90 day arrangements which continue unless terminated but are occasionally made for longer terms. Synthetic crude oils are usually priced each month on the basis of Canadian and U.S. market prices, which reflect the market balance between supply and demand for crude oil, transportation costs and refined product values. Sales of SCO represented 97 per cent of our total consolidated revenues in 2010 (2009 – 97 per cent).

Historically, our realized selling price has correlated closely to the WTI benchmark oil price converted to Canadian dollars at monthly average foreign exchange rates. Crude oil prices can be volatile, reflecting world events and world and regional supply and demand fundamentals. In addition, supply and demand impacts the price differential of our SCO product relative to Canadian dollar WTI prices. This price differential can quickly move from a premium to a discount depending on the supply/demand dynamics in the market. During the past two years, WTI daily closing prices have fluctuated from a low of approximately US$34 per barrel to a high of approximately US$92 per barrel. Also, the differential between benchmarks such as WTI and European Brent crude oil can be volatile. As in all markets, when supply, demand and other market factors change so can the spreads between benchmarks.

Syncrude also removes sulphur as part of its upgrading process. Currently, some sulphur production is sold and some sulphur production is stockpiled at Syncrude's Mildred Lake plant site. Canadian Oil Sands and the other Syncrude Participants continue to monitor the sulphur market and we may sell sulphur from the block when such sales are economically attractive. Over the past few years, Syncrude has been exploring the ability to store sulphur blocks underground. Initial information indicates that this may be a viable and environmentally friendly solution.

Competition

The Canadian and international petroleum industry is highly competitive in all aspects, including the distribution and marketing of petroleum products. Syncrude competes with other producers of crude oil. Most of the conventional producers have considerably lower operating costs but higher finding costs. The petroleum industry also competes with other industries in supplying energy, fuel and related products to consumers. In particular, the increased activity in construction of new oil sands projects and in the production and mining of oil sands over the past several years generally created shortages in the supply of skilled labour and certain equipment components used in mining operations. Despite the moderation in the pace of growth in the Fort McMurray region in late 2008 and early 2009, certain skilled labour groups remain in short supply and our operations were, and continue to be, impacted by labour shortages both on cost and scheduling aspects. The recent announcements of the resumption of several oil sands projects indicates that the competition for labour and materials will continue to be a risk factor in the coming years.

Seasonal Factors

As the Syncrude Project is located in Northern Alberta, work during winter months is often more difficult as the extreme cold temperatures make steel brittle and limit the time that individuals can work in areas exposed to the elements. Accordingly, this may impact operating and capital costs if operational upsets occur. Quarterly variances in revenues, net income, and cash from operating activities are caused mainly by fluctuations in crude oil prices, production and sales volumes, operating costs and natural gas prices. Net income also is impacted by non-cash foreign exchange gains and losses caused by fluctuations in foreign exchange rates on our U.S. dollar denominated debt, and by future income tax changes. A large proportion of operating costs are fixed and, as such, unit operating costs are variable to production volumes. While the supply/demand balance for synthetic crude oil affects selling prices, the impact of this equation is difficult to predict and has not displayed significant seasonality. Syncrude maintenance and turnaround activities are typically scheduled to avoid the winter months. However, the exact timing of unit shutdowns cannot be accurately scheduled, and unplanned outages occur. Accordingly, production levels also may not display reliable seasonality patterns or trends. Maintenance and turnaround costs are expensed in the period incurred and can lead to significant fluctuations in operating costs and reductions in production in those periods, as demonstrated in 2010 by higher per barrel operating costs of $40 in the first and third quarter versus $31 in the second quarter, and $37 on an annual basis. Beginning January 1, 2011, under International Financial Reporting Standards, major turnaround costs will be capitalized and subsequently expensed as depreciation over the period until the next turnaround which we expect will reduce periodic fluctuations in operating costs. 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.

Environmental Protection

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

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

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

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

Syncrude also maintains approvals from AENV regulating the discharge of substances into the air and water. These approvals were issued with 10 year terms, the maximum term permitted by this legislation. The renewal or modification of approvals generally involves AENV soliciting the views of stakeholders (the local community, Aboriginal population and other interested persons). Renewal or modification of approvals is often conditional, permitting AENV to review the effect of discharges or the implementation and effectiveness of new technologies. AENV approval for the Aurora North operations was received in 1998. SCL received an environmental approval for its Mildred Lake oil sands processing facilities, Base Mine and North Mine operations until June 23, 2007. A new AEPEA approval, governing both the Mildred Lake and Aurora facilities, was issued in June 2007 and is effective until June 23, 2017. In the approval, the AEPEA stipulated revised parameters for soil salvage, soil placement thickness and soil layering requirements as part of Syncrude's reclamation obligation. This was the primary reason for the increase in Canadian Oil Sands' asset retirement obligation from December 31, 2006 to December 31, 2007.

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

1. Develop Alberta's oil sands in an environmentally responsible way;

2. Promote healthy communities and a quality of life that attracts and retains individuals, families, and businesses;

3. Maximize long-term value for Albertans through economic growth, stability, and resource optimization;

4. Strengthen the Alberta government's proactive approach to Aboriginal consultation with a view to reconciling interests;

5. Maximize research and innovation to support sustainable development and unlock the potential of Alberta's oil sands; and

6. Increase available information, develop measurement systems, and enhance accountability in the management of the oil sands.

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

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

The Oil Sands Plan is designed to build on the Provincial Energy Strategy and reinforce the Land-Use Framework released in December 2008. This integration of initiatives is especially apparent with respect to the Alberta government's focus on cumulative effects management on a regional level. The Oil Sands Plan reiterates the Alberta government's goal of setting regional thresholds for air, water, land and biodiversity. In addition to this, one of the listed "priority actions" is to revise the current environmental impact assessment process to support cumulative effects management. One of the goals of the Oil Sands Plan is to meet or exceed Alberta's greenhouse gas reduction objectives. A continued commitment to carbon capture and storage projects is listed as one of the "priority actions". The Oil Sands Plan speaks of partnerships between industry, federal government and municipalities and industry investments in public and community infrastructure. Working with industry to develop financial contribution strategies is one of the "priority actions" of the Oil Sands Plan. The Oil Sands Plan also identifies a long-term investment commitment by both industry and government as one of the key success factors. The Oil Sands Plan is consistent with the trend towards increasing regulatory scrutiny of industry and as such Syncrude and Canadian Oil Sands may have increased costs and legal obligations in the future as a result of legislation that may be enacted to achieve this Oil Sands Plan.

Another example of additional oil sands regulatory scrutiny is the implementation of the Lower Athabasca Regional Plan (the "LARP") under the Land Use Framework implemented by the *Alberta Land Stewardship Act* (the "ALSA"). The LARP will be binding on provincial regulators and municipalities once it is implemented. The Alberta government is presently drafting the LARP based on recommendations provided by the Regional Advisory Committee (the "RAC") following public consultation sessions. The RAC recommendations are wide-ranging and address issues as varied as viewsheds, agriculture, recreation, oil sands tenure, conservation areas, and environmental management and thresholds. Notable aspects of the RAC recommendations that may result in increased costs and additional legal obligations for Syncrude's operations if they are incorporated into the LARP are air quality, water quality, and biodiversity management frameworks.

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

Canadian Oil Sands records the discounted estimated fair value of the future reclamation costs as an ARO liability on our Consolidated Balance Sheet with a corresponding increase to property, plant and equipment. The depreciation expense on the property, plant and equipment and the accretion expense on the ARO liability are recorded in depreciation, depletion and accretion expense. At December 31, 2010, the ARO liability recorded on the Consolidated Balance Sheet was approximately $323 million compared to $389 million at December 31, 2009. The decrease reflects a deferral in the estimated timing of some reclamation expenditures due to revised mine and tailings treatment plans partially offset by increases in cost estimates, revised material movement assumptions to reflect mine plan changes, and the recognition of an ARO pertaining to Syncrude's upgrader facilities. Canadian Oil Sands' share of Syncrude's cash reclamation expenditures was about $48 million in 2010 and $25 million in 2009. These expenditures reduced the liability recorded on our balance sheet. A full discussion of our accounting for the reclamation liability can be found in the notes to our consolidated financial statements in our 2010 annual report.

The Syncrude Joint Venture is required to post annually with the AENV irrevocable letters of credit equal in amount to $0.03 per barrel of SCO produced from the Base Mines since inception of the Syncrude Project plus estimated reclamation costs relating to the Aurora North Mine to secure the ultimate reclamation obligations of the Syncrude Project. As at December 31, 2010, Canadian Oil Sands had posted letters of credit with the Province of Alberta in the amount of $75 million in 2010 compared to $70 million in 2009, to secure its pro rata share of the ultimate reclamation obligations of the Syncrude Participants. Recent reports have indicated that the per barrel contributions that AENV requires Syncrude to contribute will increase. While modifications to existing regulations have neither been effected nor publicly released in draft form, any changes to the contribution amount may affect Canadian Oil Sands on a pro rata basis.

In addition to posting a letter of credit for its share of reclamation with the AENV, Canadian Oil Sands currently pays $0.1322 for each barrel of SCO produced and attributable to our 36.74 per cent working interest to a reclamation trust to fund our share of reclamation obligations for the Syncrude Project. Since 2002, we have the right to adjust the amount deposited in the mining reclamation trust from time to time as estimates of final reclamation costs change. As at December 31, 2010, we have accumulated approximately $53 million (including interest earned on contributions) towards future reclamation in the reclamation trust. At December 31, 2009, this amount was $48 million.

In 2010, Syncrude's site reclamation expenditures totaled approximately $130 million (2009 – approximately $70 million) and approximately 103 hectares of land were permanently reclaimed. The 2010 reclamation numbers are preliminary. Syncrude's long term plan is to return the land to a stable, biologically self-sustaining condition with a vision of creating an area of forest, parklands and lakes. As at December 31, 2010, Syncrude had approximately 3,500 hectares of permanently reclaimed land, 104 hectares of certified reclaimed land (Gateway Hill discussed below) and approximately 1,300 hectares of soils placed and contoured and ready for planting. Syncrude has planted approximately 5 million seedlings in the region since 1978. A significant portion of the land that has been reclaimed by Syncrude is used as a grazing ground for more than 300 wood bison.

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

In 2010, the Alberta government established a new definition for "permanent reclamation." Currently, for an area to be considered reclaimed, the Alberta government definition states that the land must be re-vegetated in accordance with Alberta government-approved plans. Syncrude's prior definition of a reclaimed area was land that, at a minimum, had been shaped, formed, capped with soil and was ready for re-vegetation. This definitional change has resulted in the reclassification of land previously reported by Syncrude in their reclamation numbers. Accordingly, Syncrude has amended their reclamation numbers to ensure consistency with Alberta government reports and the reclamation numbers noted above reflect the new Alberta government definitions.

The construction and operation of a large oil sands project such as Syncrude presents many environmental challenges. Responsible environmental management is a priority of the Syncrude Participants. The technical and managerial challenges to date have been addressed by SCL through many years of investment in research and the development of advanced management systems. SCL continues to seek ways to improve and reduce the cost of reclamation. Nevertheless, we expect ongoing compliance costs and ultimate reclamation costs to increase in the coming years resulting in increased costs to the Corporation.

In February 2009, SCL was charged under the federal *Migratory Birds Convention Act* and the AEPEA for a 2008 waterfowl incident. On June 25, 2010, a provincial court judge ruled in favour of the federal and provincial Crowns on the case involving this waterfowl incident. Following discussions among SCL and the federal and provincial Crowns, the parties reached an agreement on creative sentencing, which was approved by the provincial court judge on October 22, 2010. Pursuant to such order, SCL paid a total of $3 million comprised of fines and payments to fund research for improved waterfowl deterrent systems, to create a waterfowl habitat-conservation project, and to create a Wildlife Management Program at Keyano College focused on Aboriginal students.

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

Despite these improvements, however, another waterfowl incident occurred on October 25, 2010 during a freezing rain storm when waterfowl landed at various locations on the Syncrude site including roads, parking lots and the Mildred Lake and Aurora settling basins with the result that waterfowl that came in contact with bitumen on the settling basis were euthanized. Several other oil sands operators in the area reported waterfowl mortalities as well. Syncrude is cooperating fully with regulators in their investigation of this incident. Syncrude and the Participants remain committed to improving their environmental performance and in particular, the safety of wildlife in the area.

Over the past four years, a number of environmental groups and activists have focused on the negative aspects of developing the oil sands in Canada which has lead to an unbalanced view of the impact of the oil sands. Accordingly, Canadian Oil Sands and other oil sands operators have initiated a public education campaign aimed at providing the facts about the oil sands industry and its track record over the years in terms of environmental and social responsibility, technological advances and economic benefit to not only Alberta but to Canada and the United States. In particular, Mr. Coutu began a speaking tour throughout Canada in 2009 and continued throughout 2010 where he spoke to media, government officials, university students and professors and the general public as to the facts about the oil sands industry and what initiatives were being developed to address some of the industry's challenges regarding the environment.

Canadian Oil Sands does not have any environmental policies because we are not the operator of the Syncrude Project. However, SCL, as the operator of the Syncrude Project, has policies relating to safety and environmental protection. SCL also participates in the Cumulative Environmental Management Association and other organizations concerned with environmental, Aboriginal and community development matters. Furthermore, through the MSA, SCL has implemented or is in the process of implementing certain global practices in several areas, including without limitation, safety, energy management, health and environmental performance.

The Syncrude Participants support the voluntary reduction of greenhouse gas emissions, such as carbon dioxide, from Syncrude's operations. SCL is focused on reducing both energy consumption and greenhouse gas emissions per barrel of SCO produced rather than purchasing offsets or credits.

A number of environmental regulations focus on limiting the emissions of gases and other substances from the Syncrude operations. In 2007, the Alberta government's Specified Gas Emitters Regulation under the *Climate Change Emissions Management Act* came into effect. The current regulation requires that facilities emitting more than 100,000 tonnes of greenhouse gas ("GHGs") per year must reduce their GHG emissions intensity by 12 per cent over the average emissions intensity levels of 2003, 2004 and 2005. If the emissions intensity target is not met through improvements in operations, compliance tools include: per tonne payment into the climate change and emissions management fund; purchase of Alberta based offsets; or purchase of emission performance credits from a different Alberta facility. The charge payable to the fund is $15 per tonne for each tonne in excess of the target. The regulation pertaining to GHG compliance costs has been in effect since July 1, 2007. These payments are deposited into an Alberta-based technology fund for developing infrastructure to reduce emissions or support research into climate change solutions.

In 2010, Syncrude accrued approximately $0.05 per barrel, or approximately $5 million, for compliance with the Specified Gas Emitters Regulation. For 2009, Syncrude paid $4.5 million into the technology fund and in 2008, $6.7 million. The cost estimate for 2010 is preliminary, pending Syncrude's actual CO_2 emission intensity level and clarification from the Alberta government regarding details of implementation. Assuming current government regulation, we expect that Syncrude's compliance costs for the Specified Gas Emitters Regulation will be approximately $5 to $6 million next year.

The federal government has contemplated various climate change strategies in recent years ranging from a cap-and-trade regime to intensity based reduction targets. On January 31, 2010, the federal government committed under the Copenhagen Accord to reducing GHG emissions by 17 per cent from 2005 levels, which is linked to the same target adopted by the United States. On January 28, 2011, the federal Minister of the Environment discussed the government of Canada's climate change strategy. He clearly outlined that achieving Canada's climate change objectives would require a systematic approach of regulating GHG emissions sector by sector and aligning with the United States. In highlighting Canada's regulatory approach he noted that "the development of a continental cap-and-trade system is unlikely in the near term". He further committed to working with individual provinces to leverage the steps they have taken to reduce GHG emissions. To date, the federal government has pursued its sector-by-sector approach beginning with the electricity and transportation sectors. The Minster has indicated that going forward the federal government will continue to implement its plan by developing performance standards for all major emitters to make further progress toward Canada's GHG emissions reduction target.

The federal government has not specifically talked about oil sands GHG emissions regulation, however, in April 2007, the government of Canada announced *Turning the Corner*, which provided the ground work for Canada's approach to tackling climate change. On March 10, 2008, the federal government announced further details of the GHG emissions regulations from the *Turning the Corner* plan, after extensive consultations with environmental groups, industry and other stakeholders. As part of *Turning the Corner*, the Regulatory Framework for Air Emissions (the "Framework") set federal GHG and air pollutant targets for existing facilities of an initial enforceable reduction of 18 per cent from 2006 emission-intensity levels starting in 2010. Oil sands mines and upgraders which begin operations between 2004 and 2012 (including major expansions, defined as increasing capacity by at least 25 per cent) would be required to make a "clean fuel standard" emissions intensity reduction in addition to the initial 18 per cent reduction. No draft regulations implementing the Framework have ever been released, and given the federal government's policy statements relating to harmonizing with U.S. climate change initiatives, it is not clear at this time as to whether the Framework is still part of the federal government's climate change plan.

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

As a result of concerns regarding the impact of oil sands operations on the water quality of the Wood Buffalo Region's rivers and lakes, both the federal and Alberta governments have struck independent water review panels.

Federal Government Water Review Panel

On September 30, 2010, the federal Minister of the Environment announced the establishment of an oil sands advisory panel on water monitoring for the Lower Athabasca River Basin and connected waterways. Specifically, the advisory panel was asked to:

- Document, review and assess the current body of scientific research and monitoring; and
- Identify strengths and weaknesses in the scientific monitoring, and the reasons for them

In December 2010, the panel submitted their report to the federal Minister of the Environment. The report highlighted a number of observations, analyses and recommendations but overall concluded that enhancements were needed to the water monitoring system for oil sands. The panel expressed their opinion that Canadians did not have a first-class state-of-the-art monitoring system in place in the oil sands, but that they are convinced that the current activities could be transformed into a system that will provide credible data for decisions - a system that will allow Canadians to know the current conditions and trends in the oil sands ecosystem and encourage the necessary foresight to prevent a compromised environment.

Alberta Government Oil Sands Monitoring Panel

In connection with the federal government water review, the Alberta government established a panel that will provide detailed action items on how to best set up, operate and govern a world-class environmental monitoring, evaluation and reporting system for Alberta's oil sands.

The panel will also provide detailed actions on how the environmental system can be expanded to all media in the oil sands region – air, land, water and bio-diversity – and how the system can extend throughout the province.

In addition, the panel will give direction to provincial action required to address and implement recommendations that have been brought forth by the federal oil sands advisory panel and from the Alberta data review committee (described below). As of March 2011, terms of reference for the panel have been released and an expert panel has been assembled. The panel's report is expected in June 2011.

Alberta Government Water Monitoring Data Review Committee

In connection with differing expert opinions on the possible impact of oil sands operations on surrounding waterways, the Alberta government appointed a panel to examine the monitoring data and methodology of both government and academic research findings. The panel's report was submitted to the Alberta Environment Minister on March 7, 2011. The panel found that data from the different research projects was not comparable because the studies had different objectives and were not designed to examine the same potential impacts. The panel recommended a more robust, comprehensive monitoring network for the oil sands in order to gain a better understanding of the environmental impacts in the oil sands region.

It is not yet clear how the findings and recommendations of these water review panels will affect oil sands mining operations like Syncrude.

Regulation of Operations

In Alberta, the regulation of oil sands operations is now undertaken by the ERCB, which replaced the AEUB effective January 1, 2008. The ERCB derives its jurisdiction, in part, from the *Oil Sands Conservation Act* (Alberta). In addition to requiring certain approvals prior to the operation of an oil sands project, the *Oil Sands Conservation Act* (Alberta) allows the ERCB to inspect and investigate oil sands operations and, where a practice employed or a facility used in respect of the oil sands operations does not meet operating criteria recovery targets, to make remedial orders. Certain changes to an oil sands operation also require the approval of the ERCB.

On February 3, 2009 the ERCB issued Directive 074. The directive is the first component of a larger initiative for the ERCB to regulate tailings management. Directive 074 applies to all existing, approved, and future oil sands operators. Operators must make submissions to the ERCB on how they will meet the new requirements. Requirements will be phased-in and adapted as approved by the ERCB, taking into account the particular circumstances of a project. Operators also are required to assess and compare their actual tailings performance against their approved tailings plans. Any significant changes to tailings management must be reported to the ERCB and may require an application for an amendment to the approval. Directive 074 requires operators to:

- Reduce fluid fine tailings by capturing a minimum amount of fines in Dedicated Disposal Areas ("DDA"). Fines are mineral solids with particle sizes equal to or less than 44 micrometres. The amount of fines going into DDAs must be equivalent to 20 per cent of processed fines in 2011, 30 per cent in 2012, and 50 per cent in 2013 and annually thereafter;

- Form and manage DDAs to ensure the formation of trafficable deposits that are ready for reclamation five years after active deposition has ceased; and

- Submit to the ERCB an annual tailings plan starting September 30, 2009. Submit annual compliance reports for DDAs and pond status reports starting September 30, 2011. DDA plans must also be submitted two years prior to construction. Baseline surveys for DDAs and each fluid tailings pond must be reported by September 30, 2010. The Directive 074 also requires the submission of quarterly progress reports on fines capture starting in the third quarter of 2010.

On April 23, 2010, the ERCB approved, with conditions, Syncrude's revised tailings pond plans submitted in September 2009 under Directive 074. These plans outline a multi-pronged approach for meeting the long-term intent of Directive 074, and include the implementation of three main tailings technologies: water capping; composite tails; and centrifuge technology. Full costs estimates for the tailings management initiatives are not yet available but we expect tailings management costs to increase in the coming years.

In 2010, Syncrude, Canadian Natural Resources, Imperial Oil, Shell Canada, Suncor Energy, Teck Resources and Total E&P Canada announced that they plan to work together in a unified effort to advance tailings management. The announcement reflects the companies' commitments to socially and environmentally responsible operations and responds to Alberta government policy to move toward the timely reclamation of tailings. The companies have agreed to the following core principles:

- Make tailings technical information more broadly available to industry members, academia, regulators and others interested in collaborating on tailings solutions;

- Collaborate on tailings-related research and development and technology among companies as well as with research agencies;

- Eliminate monetary and intellectual property barriers to the use of knowledge and methods related to tailings technology and research and development; and

- Work to develop an appropriate framework so that tailings information is organized, verified through peer review and kept current.

In addition to Directive 074, AENV is also developing a Tailings Management Framework ("TMF"). TMF is an overarching framework to manage all aspects of tailings including: volume of mature fine tails, size of tailings ponds, GHG impact, water use/re-use/return; progressive reclamation and the use of research and development. At present, the TMF is focused on mature fine tailings management. The expectation is that the Directive 074 requirements will fit within the TMF. TMF will harmonize regulatory approaches relevant to tailings combining requirements under the *Oil Sands Conservation Act* with environmental outcomes under the AEPEA and the federal *Water Act*.

As part of its Competitiveness Review, in March 2010, the Alberta government established a task force to lead a comprehensive upstream oil and gas regulatory review and make recommendations to ensure Alberta has a modern, efficient, outcomes-based and competitive regulatory system that maintains the province's strong commitment to environmental management, public safety and resource conservation. On January 28, 2011, the Alberta Minister of Energy announced that the Alberta government had accepted the recommendations of the Regulatory Enhancement Task Force and that the recommendations would be immediately taken through the appropriate government review process for implementation with legislation to be introduced this spring. The Regulatory Enhancement Task Force report and recommendations include:

- Establishing a new Policy Management Office and ensuring integration of natural resource policies;

- Creating a single oil and gas regulatory body;

- Providing clear public engagement processes;

- Using a common approach to risk assessment and management;
- Adopting performance measures to enable continuous system improvement; and
- Creating a mechanism to help resolve disputes between landowners and companies, and enforce agreements where required.

Lease Tenure

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

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

Royalties and Taxes

The Province of Alberta imposes royalties of varying rates on the production of crude oil from lands where it owns the mineral rights. The products recovered by Syncrude are subject to a royalty which is payable to the Alberta government. Syncrude and Suncor have individual Crown Royalty agreements with the Alberta government. The rest of the oil sands industry is governed by the Crown Royalty Framework discussed below.

Effective January 1, 2009 Syncrude started paying Crown Royalties under the terms of the Amended Royalty Agreement and the Syncrude Bitumen Royalty Option Agreement. On October 25, 2007, the Alberta government announced its plan to introduce a new Crown Royalty Framework, which was made effective January 1, 2009 for the Alberta oil and gas industry. Under the generic Oil Sands Royalty regime that was in place in Alberta during 2008 and 2007, the Crown Royalty was calculated as the greater of one 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. The Syncrude Participants had an agreement with the Alberta government which codified the Crown Royalty terms to December 31, 2015. However, the Syncrude Participants entered into negotiations with the Alberta government in 2008 to determine how the Syncrude Project would be transitioned to the new Crown Royalty Framework. Key changes to the way in which royalties are calculated as a result of agreements reached during these negotiations were implemented during 2009 as described below.

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

Also in 2008, Canadian Oil Sands and the other Syncrude Participants reached an agreement with the Alberta government on terms to transition the Syncrude Project to Alberta's New Royalty Framework. Under the Amended Royalty Agreement, the Syncrude Participants will pay the greater of 25 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 Canadian Oil Sands) for the period January 1, 2010 to December 31, 2015. The additional royalty of $975 million is reduced proportionally if bitumen production is less than 345,000 barrels per day over the period and is payable in six annual installments as per the schedule outlined on page 10 of this AIF.

The deemed bitumen revenue under the Amended Royalty Agreement requires that bitumen be valued by a formula that references the value of bitumen based on a Canadian heavy oil price adjusted for reasonable quality, transportation and handling deductions (including diluent costs) to reflect the quality and location differences between Syncrude's bitumen and the reference price of bitumen. The Alberta government, SCL and the Syncrude Participants are in discussions to determine the appropriate adjustments for quality, transportation and handling and these adjustments are different than those provided under the generic bitumen valuation methodology. In December 2010, the Alberta government provided a modified notice of a bitumen value for Syncrude (the "Syncrude BVM"). For estimating and paying royalties, Syncrude used a bitumen value based on SCL and the Syncrude Participants' interpretation of the Amended Royalty Agreement, which is different than the Syncrude BVM. As a result, Canadian Oil Sands' share of the royalties recognized for the period from January 1, 2009 to December 31, 2010 are now estimated to be approximately $30 million less than the amount calculated under the Syncrude BVM. The Syncrude Participants and the Alberta government continue to discuss the basis for reasonable quality, transportation, and handling adjustments but if such discussions do not result in an agreed upon solution, either party may seek judicial determination of the matter. Should these discussions or a judicial determination result in a deemed bitumen value different than that used by Syncrude for estimating and paying royalties, the cumulative impact on Canadian Oil Sands' share of royalties since January 1, 2009 will be recognized in Crown royalties expense, impacting both net income and cash royalties accordingly.

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

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

Taxation of Syncrude-related income follows normal resource industry practices with a few important differences. As Syncrude is a mining operation, there are certain provisions that are unique, such as the accelerated capital cost allowance ("ACCA") up to the income from a mine for class 41(a) assets which applied to new mines or a major expansion of an existing mine where there was a 25 per cent or greater increase in mine capacity. Effective March 6, 1996, mining and oil sands operations, which have made capital expenditures in excess of five per cent of gross revenue in a fiscal year, were also eligible for ACCA for such expenditures over the five per cent threshold included in class 41(a.1). The federal government, in its March 19, 2007 budget, proposed the phase out of ACCA for oil sands projects. The current ACCA will continue to be available for assets acquired before March 19, 2007 and for assets acquired before 2012 that are a part of projects where major construction commenced prior to March 19, 2007. Other assets will still be eligible for ACCA but will be subject to phase-out rates between 2012 and 2015. The standard 25 per cent capital cost allowance rate will continue to apply after 2015.

Employees

As at December 31, 2010, the Corporation employed 22 full-time and six part-time employees and three consultants.

At the end of 2010, as the operator of the Syncrude Project, SCL employed approximately 5,689 people, all of whom were non-unionized. While it is believed that SCL will remain non-unionized, no assurance can be given that the workforce will not become unionized.

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

RISK FACTORS

Risks Relating To Canadian Oil Sands' Business

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

The financial condition, operating results and future growth of Canadian Oil Sands are substantially dependent on prevailing and expected prices of oil. Prices for oil are subject to large fluctuations in response to relatively minor changes in the supply of and demand for oil, market uncertainty and a variety of additional factors, all of which are beyond the control of Canadian Oil Sands. In the last two years, WTI crude oil prices have ranged between a high of US$92 per barrel to a low of US$34 per barrel. Prices are influenced by global and regional supply and demand factors. These factors include: the condition of the Canadian, U.S. and global economies; weather conditions in Canada and the U.S.; the actions of the Organization of Petroleum Exporting Countries; governmental regulation; political stability in the Middle East and elsewhere; war, or the threat of war, in oil producing regions; the foreign supply of oil and refined products; the price of foreign imports of crude oil and refined products; the availability and price of alternate fuel sources; access to sufficient markets and sufficient pipeline capacity. All of these factors are beyond our control and can result in a high degree of price volatility not only in crude oil and natural gas prices, but also fluctuating price differentials between heavy and light grades of crude oil, which can impact prices for SCO. Historically, oil prices have fluctuated widely and we expect continued volatility and uncertainty in crude oil prices. A prolonged period of low crude oil prices could affect the value of our crude oil properties and the level of spending on growth projects and could result in curtailment of production. Accordingly, low crude oil prices in particular could have an adverse impact on our financial condition and liquidity and results of operations. The operating margin is very sensitive to oil prices. Any substantial and extended decline in the price of oil would have an adverse effect on the revenues, profitability and cash from operating activities of Canadian Oil Sands and may likely affect the ability of Canadian Oil Sands to pay dividends and to repay its debt obligations.

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

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

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

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

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

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

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

Syncrude produces and stores significant amounts of sulphur in sulphur blocks at its plant site as there is presently a limited market for the sulphur. There can be no assurance that future environmental regulations pertaining to the use, storage, handling and/or sale of sulphur will not adversely impact the unit costs of production of SCO.

Syncrude strives for a safe operation and over its 30 year history has had a high safety record. However, personal injuries and deaths unfortunately do happen. There have been three deaths at Syncrude since it began operations in 1978. In February 2011, Syncrude was ordered to pay a fine under the Alberta *Occupational Health and Safety Act* for the death of a worker that occurred in 2008. Syncrude may face further penalties in connection with the deaths of the other two workers. In addition, more injuries or deaths may occur at Syncrude which could result in financial, regulatory or criminal penalties.

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

Each of the Syncrude Participants is liable for its share of ongoing environmental obligations and for the ultimate reclamation of the Syncrude Project site upon abandonment. While the Ownership and Management Agreement that created the Syncrude Joint Venture is very clear that all obligations are several and not joint, actual legislation may specifically impose joint and several liability on every owner, operator or lessee. Our share of ongoing environmental obligations have been, and in the near term are expected to continue to be, funded out of the revenues from our sales of SCO. As the Syncrude operations involve use of water and the emission of sulphur dioxide and greenhouse gases such as carbon dioxide (CO_2), legislation which significantly restricts or penalizes current production levels would have a material impact on our operations. While Syncrude is focused on reducing these emissions on a per barrel basis, no assurance can be given that existing or future environmental regulations will not adversely impact the ability of the Syncrude Project to operate at present levels or increase production, or that such regulations will not result in higher unit costs of production.

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

There are various consultation processes underway by the Province of Alberta with regard to water usage in the oil and gas industry and the oil sands sector in particular. In particular, the "Phase 2 Committee" established to develop recommendations for the Phase 2 Water Management Framework of the Lower Athabasca River issued a report in January 2010, but it did not achieve consensus concerning a final set of water management rules. As no final conclusions or recommendations have been issued as a result of these processes, we cannot fully assess the impact of any such proposals on our operations. Syncrude has operated below the license limits with respect to its use of water from the Athabasca River and has historically co-operated with the Alberta government as part of these processes by voluntarily reducing the amount of water that it removes from the Athabasca River during periods of low river flow. However, it is not clear whether the Alberta government will implement legislation or regulations as a result of the consultation processes that will limit the ability to remove water during such low flow periods, despite entitlements under existing water licenses. As the Syncrude operations involve the use of water, any proposed legislation which significantly restricts or penalizes current production levels may have a material negative impact on our operations.

The Alberta government has indicated that the Alberta oil sands monitoring panel will provide recommendations for a world-class monitoring system and incorporate the data from both the federal oil sands advisory panel and the Alberta data review committee panel in its deliberations. At this time it is not clear what regulations, if any, will be enacted by the Alberta government. However, resulting government regulations could result in increased costs and additional legal obligations for Syncrude's operations.

The Alberta government is currently drafting the LARP based on recommendations provided by the RAC. It is not yet clear how the LARP will affect the operations of Syncrude, however, the LARP may result in increased costs and additional legal obligations for Syncrude's operations.

Syncrude produces a significant volume of fine tailings, which are presently held in settling basins. Syncrude's closure and reclamation plan and thus its ERCB approval depends on the use of composite tails, centrifuge and end pit lakes technology to manage tailings fluids and solids associated with bitumen production. As this is developmental technology, there is an inherent risk that such technologies used by Syncrude and most other oil sands producers may not be as effective as desired or perform as required in order to meet the approved closure and reclamation plan. Current initiatives undertaken by Syncrude include the development of the Base Mine Lake demonstration project, implementation of composite tails at Aurora North, implementation of mature fine tailings centrifugation technology at Mildred Lake, and other sustaining projects such as in-pit containment construction and mine facilities relocations within the mining/tailings footprints.

The monitoring and reporting requirements under Directive 074 will also mean greater regulatory scrutiny over tailings management now and into the future. Directive 074 will allow the ERCB to take enforcement action against companies that fail to meet industry-wide tailings management criteria. Enforcement actions range from non-compliance fees to increased inspections and suspension or cancellation of approvals. It is noteworthy that Directive 074 is performance-based, and gives companies the flexibility to choose the technology they prefer to achieve the performance criteria.

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

Canadian Oil Sands has exposure to financial market risk

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

Foreign Currency Risk

Canadian Oil Sands' results are affected by fluctuations in the U.S./Canadian currency exchange rates as we generate revenue from oil sales based on a U.S. dollar WTI benchmark price, while operating costs and capital costs are denominated primarily in Canadian dollars. Over the last two years, the U.S. to Canadian dollar exchange rate has experienced significant volatility, ranging from a low of $0.77 U.S./Cdn to a high of $1.00 U.S./Cdn. Our revenue exposure is partially offset by U.S. dollar obligations, such as interest costs on U.S. dollar denominated long-term debt (Senior Notes) and our share of Syncrude's U.S. dollar vendor payments. In addition, when our U.S. dollar denominated Senior Notes mature, we have exposure to U.S. dollar exchange rates on the principal repayment of the Senior Notes. This repayment of U.S. dollar debt acts as a partial financial hedge against the U.S. dollar denominated revenues.

To the extent that Canadian Oil Sands issues debt securities denominated in foreign currencies, such an investment may entail significant risks that are not associated with a similar investment in a security denominated in Canadian dollars. Such risks include, without limitation, the possibility of significant changes in rates of exchange between the Canadian dollar and the various foreign currencies and the possibility of the imposition of currency controls by either the Canadian or foreign governments. These risks will vary depending upon the currency or currencies involved. At December 31, 2010, Canadian Oil Sands only had U.S. dollar denominated debt and partially utilized Canadian dollar denominated bank credit facilities.

Interest Rate Risk

Canadian Oil Sands' results, and in particular our net interest expense, are impacted by U.S. and Canadian interest rate changes as our credit facilities and investments are exposed to floating interest rates. In addition, we are exposed to interest rate risk upon the refinancing of maturing long-term debt at prevailing interest rates. As at December 31, 2010, $145 million was drawn on our credit facilities and our next U.S. Senior Note maturity is not until August 2013. The Corporation also did not have a significant exposure to interest rate risk in 2010 based on the amount of floating rate debt or instruments outstanding.

Liquidity Risk

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

We are exposed to liquidity risk to the extent we have financing requirements related to significant capital or operating commitments. Economic, credit and capital market conditions have continued to ease throughout 2010 following the 2008/2009 economic crisis. Our next debt maturity is in August, 2013. Canadian Oil Sands has $695 million of unused credit facilities as at December 31, 2010 available to meet operating and capital requirements. Despite our current liquidity position, an inability to access the credit markets combined with a sustained downturn in crude oil prices may seriously impact the Corporation's liquidity.

Credit Risk

Canadian Oil Sands is exposed to credit risk primarily through its trade accounts receivable balances with customers and with financial counterparties with whom the Corporation 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. Although the financial condition of some of our U.S. based refinery customers has improved from levels in 2009, if low refinery margins persist or worsen, Canadian Oil Sands may not be able to collect all of its accounts receivable.

The benefits and expected results from the MSA may not materialize

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

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

All of our Syncrude production is transported through the Alberta Oil Sands Pipeline Limited ("AOSPL") system, which delivers to Edmonton, Alberta. Disruptions in service on this system could adversely affect our crude oil sales and production and cash from operating activities. The AOSPL system feeds into various other crude oil pipelines that are used to deliver our SCO product to refinery customers within Canada and the United States. Interruptions in the availability of these pipeline systems may limit the ability to deliver production volumes and could adversely impact sales volumes or the prices received for our product. These interruptions may be caused by the inability of the pipeline to operate, or they can be related to capacity constraints as the supply of feedstock into the system exceeds the infrastructure capacity. While we believe long term take-away capacity will exceed supply growth, there can be no certainty that investments will be made to provide this capacity or that current capacity will not encounter continuing operational incidents that result in reduced pipeline capacity. There is also no certainty that operational constraints on the pipeline system and pipeline apportionment, arising from pipeline interruptions and/or increased supply of crude oil, will not occur. In addition, planned or unplanned shutdowns or closures of our refinery customers may limit our ability to deliver our SCO with negative implications on sales and cash from operating activities.

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

From time to time our SCO product is carried on pipelines that cross certain waterways, including without limitation, the Athabasca River. If our SCO product spills into such waters this could have a negative impact on our reputation and our ability to transport our product.

Deteriorating conditions in the credit markets may adversely affect business

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

Capital projects may experience cost overruns

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

Operating and capital costs may continue to increase

We 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 creates costs pressure on products and services to operate, maintain and grow Syncrude's facilities. The deterioration of economic conditions during late 2008 and early 2009 relieved some inflationary pressure on the oil sands industry, although it did not appear to result in reduced costs for oil sands operations; Canadian Oil Sands did not experience material cost declines. With market conditions improving in late 2009 and 2010, oil sands development is again beginning to accelerate and with it a return to inflationary pressures on operating and capital costs. If the cost pressures continue, such increases in operating and capital costs will have an adverse effect on the business and financial condition of Canadian Oil Sands.

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

There are certain risks associated with the execution of Syncrude's major projects, including without limitation, the SER project, mine train moves, upgrader debottleneck, and the development of Aurora South. These risks include: our ability to obtain the necessary environmental and other regulatory approvals; risks relating to schedule, resources and costs, including the availability and cost of materials, equipment and qualified personnel, especially skilled construction and engineering labour; the impact of general economic, business and market conditions; the impact of weather conditions; our ability to finance growth if commodity prices were to stay at low levels for an extended period; the impact of new entrants to the oil sands business which could take the form of competition for skilled people, increased demands on the Wood Buffalo Region, Alberta infrastructure (for example, housing, roads and schools) and price competition for products sold into the marketplace; and the effect of changing government regulation and public expectations in relation to the impact of oil sands development on the environment.

The commissioning and integration of new facilities and the execution of major projects within an operating plant present issues that require risk management. For example, the mine train relocations and replacements are necessary to vacate depleted pits to allow tailings placement. If the mine trains are not removed on time, there is a risk that Syncrude will not be able to place tailings, and therefore produce planned levels of bitumen, for some period. In addition, production rates are not expected to be impacted by the Aurora North mine train relocations but there will be some risk for approximately 60 days while each mine train is moved if one of the two operating mine trains should break down.

The petroleum industry and energy sector are highly competitive

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

The Syncrude Project competes with other producers of crude oil, some of whom have considerably lower operating costs. Also, an increasing supply of synthetic crude oil came on stream in recent years and is expected to increase further in 2011 and beyond. There is no guarantee there will be sufficient demand to absorb the increased supply without eroding the selling price, which could result in a deterioration of the price differential that Canadian Oil Sands may realize compared to benchmark crude oils such as WTI. Also, prices may decline to such an extent that our share of Syncrude's production is no longer economically viable. In response to growing volumes of synthetic crude oil, we have had to expand our markets to achieve the premium price we expect for our quality product. With the increased supply of synthetic crude oil, we may obtain a lower net realized selling price and may need to sell our product to refineries further from the source of production. This will increase transportation costs of the product and accordingly, the net realized selling price for our product may be negatively impacted. The petroleum industry also competes with other industries in supplying energy, fuel and related products to consumers.

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

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

It is expected that the highly competitive environment in the Wood Buffalo Region may continue to be an ongoing issue in the years to come.

Marketing and transportation of synthetic crude oil

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

In the coming years, planned oil projects will result in additional crude oil entering the market. There can be no assurance that existing transportation systems will be sufficient to handle this additional production or that new transportation systems will be built in time or at all.

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

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

Canadian Oil Sands and Syncrude may face potential unknown liabilities

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

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

Numerous uncertainties remain regarding the impact of the federal government's sector-by sector review of GHG emissions and the impact such review will have on the oil sands specifically or whether the targets contemplated previously under the Framework would still apply to the oil sands. As well, harmonization with the Alberta Specified Gas Emitters Regulation makes it difficult to ascertain the cost estimate of climate change regulation compliance, including when third party costs factor their way into Syncrude's supply chain of goods and services. There is no assurance that the cost impact to Canadian Oil Sands of the federal climate change regulation will not be significant, which could result in a material adverse effect on our financial condition or our results or operations and in turn negatively impact the Corporation's financial results or our results of operations.

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

Environmental legislation and regulation in importing jurisdictions in the United States regulating carbon fuel standards could result in increased costs and/or reduced revenue to the Corporation. For example, California, the United States federal government and other U.S. states have passed legislation which, in some circumstances, considers the lifecycle greenhouse gas emissions of purchased fuel and which may negatively affect marketing of Syncrude products, or require the purchase of emissions credits in order to affect sales in such jurisdictions. In addition, recent indications are that the United States will move forward with GHG emission requirements led by the Environmental Protection Agency ("EPA"). If and when the EPA regulations unfold they could result in increased costs and/or reduced revenue to the Corporation.

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

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

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

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

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

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

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

Purchased natural gas is a significant component of the bitumen production and upgrading processes. Increases in natural gas prices therefore introduce the risk of significantly higher operating costs. Similar to crude oil prices, natural gas prices also have experienced volatility over the last two years, from a high of approximately AECO $6.29 per GJ to a low of approximately AECO $1.92 per GJ. To the extent crude oil prices and natural gas prices move together, the risk of natural gas price increases is mitigated as the Corporation is significantly more levered to oil prices. However, recent technological advances have unlocked significant new supply of natural gas resulting in relatively low natural gas prices compared to crude oil prices suggesting that at least in the near term, there is a reduced risk of higher natural gas prices relative to crude oil prices. The Corporation has previously used hedge positions to mitigate natural gas price risk and will continue to assess the strategy as a means to manage short term operating costs. No natural gas hedges were utilized in 2010, 2009 or 2008, and as at March 10, 2011, we have no natural gas hedges in place.

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

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

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

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

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

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

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

Canadian Oil Sands' insurance may not provide adequate coverage in all circumstances

Syncrude may experience an event causing a loss or interruption of production, such as a fire or explosion at the operating facilities. Although we maintain a risk management program, which includes an insurance component, consisting primarily of business interruption and property insurance, such insurance is unlikely to fully protect against catastrophic events or prolonged shutdowns. Losses beyond the scope of our insurance could have a material adverse effect on our business, financial condition, results of operations and cash flow.

Risks Relating to the Corporation or Common Shares

Dividends are variable

Dividends to Shareholders are a function of numerous factors including: the Corporation's financial performance; debt covenants and obligations; working capital requirements; future non-discretionary capital expenditures and future expansion capital expenditure requirements for the purchase of property, plant and equipment; current and potential future environmental liabilities; tax obligations; the impact of interest rates and/or foreign exchange rates; the growth of the general economy; the price of crude oil and natural gas; and the number of Common Shares issued and outstanding. Dividends may be increased, reduced or suspended or eliminated entirely depending on Canadian Oil Sands' operations and the performance of its assets. The market value of Common Shares may deteriorate if the Corporation is unable to meet dividend expectations in the future and that deterioration may be material.

The price of Common Shares may experience volatility

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

The Corporation's debt service obligations may limit the amount of cash available for dividends

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

The Corporation cannot provide unequivocal assurance that it is not a passive foreign investment company for United States federal income tax purposes

While the Corporation believes that it is reasonable to take the position that it is presently not a passive foreign investment company (a "PFIC") for United States federal income tax purposes, we cannot provide unequivocal assurance that the United States Internal Revenue Service will not take a different view. The Corporation, as the managing partner of COSP, has employees that are actively engaged in managing COSP's investment in Syncrude and also market COSP's share of SCO production. However, if United States authorities view this activity as "passive", then U.S. Holders (as defined below) may be subject to additional taxes and would be subject to additional filing requirements. In addition, PFIC status is fundamentally factual in nature, is determined annually and generally cannot be determined until the close of the taxable year in question.

For the purposes of this AIF, the term "U.S. Holder" means a beneficial owner of Common Shares that is:

(a) a citizen or individual resident of the United States as determined for United States federal income tax purposes;

(b) a corporation or other entity treated as a corporation for United States federal income tax purposes, created or organized in or under the laws of the United States or any State or the District of Columbia; or

(c) an estate that is subject to United States federal income tax on its income regardless of its source; or

(d) a trust if a United States court has preliminary supervision over its administration and one or more United States persons have the authority to control all substantial decisions of the trust, or if the trust has a valid election in effect under applicable Treasury Regulations to be treated as a United States person.

If the Corporation does not constitute a "qualified foreign corporation" for United States federal income tax purposes, individual U.S. Holders may be taxed at a higher rate on dividends

Management expects that dividends it pays, prior to January 1, 2013, to non-corporate U.S. Holders (including individual U.S. Holders) will be treated as qualified dividend income eligible for the reduced maximum rate to individuals of 15 per cent if certain holding period and other requirements are met. However, if the Corporation does not constitute a "qualified foreign corporation" for United States federal income tax purposes, and as a result such dividends to non-corporate U.S. Holders do not qualify for this reduced maximum rate, such holders will be subject to tax on such dividends at ordinary income rates (currently at a maximum rate of 35 per cent).

RESERVES DATA AND OTHER INFORMATION

National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities* ("NI 51-101") establishes a regime of continuous disclosure for oil and gas companies and includes specific reporting requirements. The Corporation's year-end reserves report summarized in this AIF is compliant with NI 51-101.

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

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

> **Proved Reserves** are those reserves that can be estimated with a high degree of certainty to be recoverable. NI 51-101 further identifies the certainty level for proved reserves as "at least a 90 per cent probability that the quantities actually recovered will equal or exceed the estimated proved reserves".
>
> **Proved plus Probable Reserves** are those additional reserves that are less certain to be recovered than proved reserves. NI 51-101 defines the certainty level as "at least a 50 per cent probability that the quantities actually recovered will equal or exceed the sum of the estimated proved plus probable reserves." Therefore, under NI 51-101, the proved plus probable reserves represent a "best estimate" or "expected reserves".

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

Based on an independent engineering evaluation conducted by GLJ effective December 31, 2010 and prepared in accordance with NI 51-101, Canadian Oil Sands had proved plus probable reserves of 1.8 billion barrels. All reserve information in this section is based on Canadian Oil Sands' working interest of 36.74 per cent in the Syncrude Joint Venture as at December 31, 2010. Proved developed producing reserves represent 50 per cent of proved plus probable reserves. Proved non-producing reserves have not been assigned. Canadian Oil Sands currently produces only one product type, namely SCO. The probable reserves in the undeveloped Aurora South Mine are currently anticipated to be developed with a paraffinic froth treatment process to facilitate the sale of some bitumen beginning in 2017. This froth treatment process produces less bitumen than the naphthenic froth treatment process currently used by Syncrude by reducing the asphaltene content.

Our crude oil reserves quantities and future net revenues were determined by GLJ utilizing GLJ's price forecast as of December 31, 2010. The reserves estimates were constrained to areas where Syncrude currently has approvals to mine. The future net revenues shown below are based on the current Alberta oil sands royalty regulations as modified by the agreement reached on November 18, 2008 between the Syncrude Participants and the Alberta government (See "*Royalties and Taxes*" section of this AIF) and are prior to provisions for currency hedging, interest, debt service charges, general and administrative costs, insurance, and mine and upgrader facilities reclamation costs. It should not be assumed that the estimated discounted future net revenues represent the fair market value of the reserves. The effective date of the reserves estimate and revenue projection in this AIF is December 31, 2010.

The estimates of reserves and projections of production were generally prepared using data to January 23, 2011. The GLJ report preparation date is February 1, 2011 and the report is dated February 22, 2011. Canadian Oil Sands provided GLJ with a representation letter confirming that complete and correct information has been provided to GLJ.

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

Summary of Reserves as at December 31, 2010

Forecast Prices and Costs [(1)(2)]

	Synthetic Crude Oil Reserves[(3)(4)]		**Before Income Taxes Future Net Revenue Discounted ($ millions)[(5)]**				
Reserves Category	**Gross million bbls**	**Net million bbls**	**0%**	**5%**	**10%**	**15%**	**20%**
Proved Developed Producing	889	759	34,798	19,120	12,138	8,538	6,449
Proved Developed Nonproducing	-	-	-	-	-	-	-
Total Proved	889	759	34,798	19,120	12,138	8,538	6,449
Probable	877	759	39,745	11,239	3,325	771	(126)
Total Proved Plus Probable	1,766	1,518	74,543	30,359	15,463	9,309	6,323

	Synthetic Crude Oil Reserves[(3)(4)]		**After Income Taxes Future Net Revenue Discounted ($ millions)**				
Reserves Category	**Gross million bbls**	**Net million bbls**	**0%**	**5%**	**10%**	**15%**	**20%**
Proved Developed Producing	889	759	26,277	14,405	9,108	6,378	4,796
Proved Developed Nonproducing	-	-	-	-	-	-	-
Total Proved	889	759	26,277	14,405	9,108	6,378	4,796
Probable	877	759	29,721	8,053	2,080	189	(443)
Total Proved Plus Probable	1,766	1,518	55,998	22,458	11,188	6,567	4,353

Notes:

(1) COSP constitutes 100 per cent of the net reserves shown.

(2) Figures may not add correctly due to rounding.

(3) Probable reserves include 112 million Gross and 93 million Net barrels of bitumen which are not considered to be material.

(4) Proved plus probable reserves are based on SCL's mine plans which generally reflect a total volume to bitumen in place (TV:BIP) of 14 to 1.

(5) The before income tax future net revenue discounted at 10 per cent on a $/bbl (net) basis for each category is as follows:

$/bbl	
Proved developed producing	$16.00
Proved developed non producing	$ -
Total proved	$16.00
Probable	$ 4.38
Total proved plus probable	**$10.19**

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

($ Millions)

Reserves Category	Revenue	Royalties	Operating Costs	Capital Development Costs	Abandonment Costs	Future Net Revenues Before Income Taxes	Income Tax	Future Net Revenues After Income Taxes
Proved Developed Producing	103,758	15,683	39,188	14,089	-	34,798	8,521	26,277
Proved Developed Nonproducing	-	-	-	-	-	-	-	-
Total Proved	103,758	15,683	39,188	14,089	-	34,798	8,521	26,277
Total Probable	122,115	17,314	43,588	21,468	-	39,745	10,024	29,721
Total Proved Plus Probable	225,873	32,997	82,776	35,557	-	74,543	18,545	55,998

Notes:

(1) Figures may not add correctly due to rounding.

(2) Reclamation costs were not included in these calculations. Future reclamation costs including estimated costs to reclaim the mines and upgrader site for proved reserves are estimated at $1,194 million and for proved plus probable reserves at $1,683 million.

Forecast Prices Used in Estimates

The forecast reference prices as at December 31, 2010 used in preparing Canadian Oil Sands' reserves data are provided in the table below and is the price forecast as of December 31, 2010 of GLJ, the independent reserves evaluator of Canadian Oil Sands. The Syncrude plant gate SCO price is expected to correspond to "Light Sweet Crude Oil at Edmonton" plus a premium of $2.50 per barrel (e.g. $88.72 per barrel in 2011).

Year	Inflation (%)	Exchange Rate ($US/$Cdn)	WTI Crude Oil at Cushing Oklahoma ($US/bbl)	Light, Sweet Crude Oil at Edmonton (40 API, 0.3% S) ($Cdn/bbl)	AECO-C Spot Gas ($/MMBTU)	Bitumen Price at Syncrude Project (1) ($Cdn/bbl)
2011	2.0	0.98	88.00	86.22	4.16	61.58
2012	2.0	0.98	89.00	89.29	4.74	60.42
2013	2.0	0.98	90.00	90.92	5.31	58.38
2014	2.0	0.98	92.00	92.96	5.77	58.77
2015	2.0	0.98	95.17	96.19	6.22	61.04
2016	2.0	0.98	97.55	98.62	6.53	66.13
2017	2.0	0.98	100.26	101.39	6.76	68.03
2018	2.0	0.98	102.74	103.92	6.90	69.76
2019	2.0	0.98	105.45	106.68	7.06	71.65
2020	2.0	0.98	107.56	108.84	7.21	73.12
2020+	2.0	0.98	+2.0%/yr	+2.0%/yr	+2.0%/yr	+2.0%/yr

(1) Forecast bitumen prices are used to estimate Crown Royalties. Forecast annual bitumen prices at the Syncrude Project are variable but over the life of the project the average price is projected at approximately 67 per cent of the Light Sweet Crude Oil at Edmonton price. Aurora South bitumen is anticipated to be valued slightly greater than the current bitumen as a result of differences in density.

In 2010, Canadian Oil Sands received a weighted average price of $80.53 per barrel (after crude oil purchases and transportation expense) for its SCO.

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

The following table sets forth a reconciliation of the changes in our working interest reserve volumes before deducting Alberta Crown Royalties as at December 31, 2010 against such reserves as at December 31, 2009 based on the above-noted forecast prices and costs assumptions:

	Total Oil Reserves Synthetic Crude Oil		
	Proved (million bbl)	Probable (million bbl)	Proved Plus Probable (million bbl)
At December 31, 2009	962	898	1,860
Technical Revisions	(34)	(21)	(55)
Production	(39)	-	(39)
At December 31, 2010	889	877	1,766

Currently only one product type, SCO, is being produced. Probable bitumen sales of 112 million barrels are included in the December 31, 2010 reserve volumes shown above. This revised development/marketing scenario resulted in a 29 million barrel reduction in our prior estimate of probable and proved plus probable reserve volume due to a revision in the Aurora South froth treatment assumption to paraffinic froth treatment.

The probable reserves primarily reflect development of Aurora South, as well as improvements to both extraction recovery and upgrading yield.

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

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

Undeveloped Synthetic Crude Oil
(Million Barrels)

	Proved		**Probable**	
	*First Attributed	Total at Year-end	*First Attributed	Total at Year-end
Prior	-	-	678	678
2008	-	-	-	678
2009	-	-	129	807
2010	-	-	-	770(1)

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

Note:

(1) Represents 658 million barrels of SCO and 112 million barrels of bitumen. Bitumen first attributed in 2010 was based on a revised development assumption.

The probable undeveloped reserves relate solely to the Aurora South mine. The mine has regulatory approvals in place and a relatively high drill density. The timing of development will be driven by owner approval, market expectations for light/heavy oil price differentials, upgrader demand and the productive capacity associated with currently developed mine areas. Syncrude is working towards the start of development within the next five years. The Aurora South mine is classified as probable rather than proved in view of the significance of the associated development capital, the uncertainty that major capital spending will commence within the next three years and the requirement for approval by the Syncrude Participants.

Future Development Costs

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

	Total Proved Estimated Using Forecast Prices and Costs ($ millions)	Total Proved Plus Probable Estimated Using Forecast Prices and Costs ($ millions)
2011	907	959
2012	1,286	1,397
2013	1,435	1,650
2014	845	1,489
2015	562	2,285
Remainder	9,054	27,777
Total for all years undiscounted	$ 14,089	$ 35,557
Total for all years discounted at 10% per year	$ 6,574	$ 13,315

Other Oil and Gas Information

Costs Incurred

The following table sets forth costs incurred by Canadian Oil Sands for the year ended December 31, 2010:

Property Acquisition Costs ($millions)			
Proved Properties	Unproved Properties	Exploration Costs ($ millions)	Development Costs ($ millions)
Nil	Nil	Nil	**$506**

Abandonment and Reclamation Costs

Canadian Oil Sands has abandonment and reclamation obligations relating to the mines, upgrader and related facilities. Canadian Oil Sands estimates the abandonment liability, net of salvage, for the mines with consideration given to the expected costs to abandon and reclaim the lands and extraction facilities as well as the base plant upgrading and related facilities on an undiscounted current cost basis to amount to $1,194 million ($213 million at a 10 per cent discount rate) for proved reserves and $1,683 million ($308 million at a 10 per cent discount rate) for proved plus probable reserves. These estimates are based on prevailing industry conditions, regulatory requirements and past experience.

Our share of the present value of abandonment and reclamation costs that require recognition in our financial statements at December 31, 2010 was approximately $323 million (discounted at an average of 6 per cent). We estimate our share of these costs over the next three years to be approximately $100 million. These liabilities relate to our 36.74 per cent working interest at December 31, 2010 in the Syncrude future dismantlement and site restoration costs for the Base, North and Aurora North mines and related facilities (which includes the Mildred Lake upgrader), but exclude Aurora South as no disturbance has yet occurred on that lease. In estimating the future net revenue, GLJ has not included any abandonment and reclamation costs in the GLJ reserve report.

Tax Horizon

During 2007, Bill C-52 (Canada) was enacted which introduces an income tax on trust distributions for certain Canadian public income and royalty trusts starting in 2011. In response to this, effective December 31, 2010, the Trust converted to a corporation and, effective in 2011, the Corporation will be taxable at Alberta corporate tax rates. Accordingly, the future net revenue calculations include a provision for income taxes and considers approximately $2 billion of tax pools that were available at December 31, 2010.

Crown Royalty Changes

The "Royalties and Taxes" section of this AIF discusses four developments occurring between 2007 and 2010 with respect to the Syncrude Project's Alberta Crown Royalty terms:

1. The details of the oil sands industry Crown royalty terms introduced in 2007 and effective on January 1, 2009.
2. The exercise during 2008 by Syncrude of its Bitumen Royalty Option effective January 1, 2009 and the terms under which Syncrude transitioned to a bitumen based royalty, including the Alberta Bitumen Valuation Methodology ("BVM").
3. The agreement reached on November 18, 2008 between the Syncrude Joint Venture owners and the Alberta government regarding the terms under which Syncrude's Alberta Crown Agreement will transition to the generic royalty regime by January 1, 2016.
4. The modified notice of a bitumen value for Syncrude considering the basis for reasonable quality, transportation and handling adjustments provided by the Alberta government in December 2010.

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

Net proved and probable reserves, before and after tax future net revenues and resources information presented in this AIF incorporate these royalty terms in the estimates. The reserves and future net revenues utilize the reserve evaluator's forecast Syncrude bitumen price summarized in the table on page 48. Over the project life, this is approximately 67 per cent of the reserve evaluator's forecast of light sweet crude oil prices at Edmonton. Syncrude's Alberta Crown Royalties are highly sensitive to the deemed price of bitumen. Over the past five years, estimated average yearly prices for Syncrude bitumen using adjustments for quality, location and diluent consistent with the BVM have ranged from 36 per cent to 78 per cent of light sweet crude oil prices at Edmonton.

Production Estimates

GLJ's forecast of Canadian Oil Sands' production from the Syncrude Joint Venture for 2011 based on the information known at January 23, 2011 using forecast prices is presented below:

	Synthetic Crude Oil (million barrels)	
Reserves Category	Gross	Net After Royalty
Proved developed producing	40.6	36.7
Total proved	40.6	36.7
Total proved plus probable	42.4	38.4

Production History

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

	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Year
Average Daily Sales of SCO (bbls/d)(1)	99,286	118,569	96,447	114,739	107,280
Net Realized Selling Price(2)	82.06	78.07	77.94	83.97	80.53
Operating Expenses	(39.59)	(31.18)	(39.99)	(37.35)	(36.76)
Royalties	(8.74)	(7.88)	(7.66)	(7.06)	(7.80)
Netback	33.73	39.01	30.29	39.56	35.97

Notes:

(1) The average daily volumes reported for 2010 represent Canadian Oil Sands' average daily sales, which differ from its average daily production volumes primarily due to changes in in-transit pipeline volumes.

(2) Net realized SCO sales price.

Reserve Life Index

Canadian Oil Sands' estimated reserve life index using reserves prepared by GLJ and based on Canadian Oil Sands' January 27, 2011 guidance of approximately 110 million barrels per year of Syncrude production is as follows:

	(Millions of barrels)	Index (Years)
Total Proved Reserves	889	22
Proved Plus Probable Reserves	1,766	44

Resources

In addition to the reserve definitions provided on page 45 of this AIF, we are providing the following definitions to assist you in understanding the terminology used in the following discussion of "Resources":

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

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

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

See page 11 of this AIF for an outline of the leases held by the Syncrude Joint Venture, which total about 251,000 acres of which approximately 130,000 acres relates to leases with no attributed reserves. Based upon independent evaluations conducted by GLJ effective December 31, 2010, the proved plus probable reserves and best estimates of other resource classes are as follows:

(billions of barrels of SCO)	Syncrude **Project**	**COS**[(1)]
Proved plus probable reserves	4.8	1.8
Contingent resources[(2)] – best estimate	5.5	2.0
Prospective resources[(3)] – best estimate	1.6	0.6

Notes:

(1) Based on the Corporation's indirect 36.74 per cent working interest in the leases.

(2) Contingent resources are higher than reported last year reflecting the results of updated drilling and modeling and transfers from prospective resources.

(3) Prospective resources are lower than reported last year reflecting the results of updated drilling and modeling and the resulting transfer to contingent resources.

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

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

Contingent and perspective resources generally reflect similar design assumptions to those used in the reserves estimates.

DIVIDENDS

Following the Reorganization, Canadian Oil Sands intends to continue with its approach of providing a variable payout to investors. Dividend payments will be determined on a quarterly basis by the Board of Directors in the context of current and expected crude oil prices, economic conditions, Syncrude's operating performance, taxation, and the Corporation's capacity to finance operating and investing obligations. Dividend levels will be established with the intent of absorbing short-term market volatility over several quarters; however, the variable nature of cash from operating activities and net income means Canadian Oil Sands' dividend amounts are likely to be variable and any expectations regarding the stability or sustainability of dividends are unwarranted and should not be inferred. See the discussion regarding the volatility and lack of certainty on dividends under "*Risk Factors*" on page 43 of this AIF.

The agreements governing the Corporation's operating and revolving credit facilities provide that dividends to Shareholders are not permitted if a default or event of default (as such terms are defined in the credit facilities) has occurred and is continuing.

Distribution and Dividend History

Prior to the Reorganization, the Trust paid distributions to Unitholders and after the Reorganization the Corporation pays dividends to Shareholders. Accordingly, all amounts prior to December 31, 2010 were distributions of the Trust.

Payment Date	Amount per Unit/Common Share
February 28, 2011	$0.20
November 30, 2010	$0.50
August 31, 2010	$0.50
May 31, 2010	$0.50
February 26, 2010	$0.35
November 30, 2009	$0.35
August 28, 2009	$0.25
May 29, 2009	$0.15
February 27, 2009	$0.15
November 28, 2008	$0.75
August 29, 2008	$1.25
May 30, 2008	$1.00
February 29, 2008	$0.75

DESCRIPTION OF CAPITAL STRUCTURE

General Description

The Corporation is authorized to issue an unlimited number of Common Shares and up to a maximum of 10,000,000 preferred shares, issuable in series. The holders of Common Shares are entitled to receive notice of and to attend all meetings of shareholders and vote at any such meeting on the basis of one vote for each Common Share held. As no preferred shares are issued and outstanding, the holders of Common Shares are entitled to receive any dividend declared by the board of directors of the Corporation and to receive the remaining property of the Corporation on a liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or on any other return of capital or distribution of assets of the Corporation among its shareholders for the purpose of winding up its affairs. As at December 31, 2010, an aggregate of 484,447,536 Common Shares were issued and outstanding.

Shareholder Rights Plan

A shareholder rights plan (the "Rights Plan") for the Corporation was approved by Shareholders at the annual and special meeting of Shareholders held on April 29, 2010 in connection with the approval of the Reorganization and must be reconfirmed by more than 50 per cent of the votes cast at each of the annual and special meetings of Shareholders in 2014 and 2017. The Rights Plan was implemented on the effective date of the Reorganization, being December 31, 2010.

The primary objective of the Rights Plan is to provide the Board of Directors with sufficient time to explore and develop alternatives for maximizing Shareholder value if a take-over bid is made for the Voting Shares (defined as the Common Shares and any other shares that the Corporation may issue that carry voting rights) and to provide every Shareholder with an equal opportunity to participate in such a bid. The Rights Plan encourages a potential acquiror to proceed either by way of a Permitted Bid (as defined in the Rights Plan), which requires the take-over bid to satisfy certain minimum standards designed to promote fairness, or with the concurrence of the Board. Shareholders are advised that the Rights Plan may preclude their consideration or acceptance of offers which are inadequate and do not meet the requirements of a Permitted Bid.

The effective date of the Rights Plan is December 31, 2010 and such Rights Plan has a nine year term. On December 31, 2010, one right (a "Right") was issued and attached to each Common Share then outstanding and one right will also be issued and attach to each Common Share subsequently issued.

The Rights will separate from the Common Shares and will be exercisable eight trading days (the "Separation Time") after a person (an "Acquiring Person") acquires 20 per cent or more of, or commences or announces a take-over bid for, the outstanding Voting Shares, other than by an acquisition pursuant to a Permitted Bid or a Competing Permitted Bid (in each case, as described below). The acquisition by an Acquiring Person of 20 per cent or more of the Voting Shares is referred to as a "Flip-in Event". When a Flip-in Event occurs each Right (except for Rights beneficially owned by an Acquiring Person or certain transferees of an Acquiring Person, which Rights will become void) becomes a right to purchase from the Corporation, upon exercise thereof in accordance with the terms of the Rights Plan, that number of Common Shares having an aggregate market price on the date of consummation or occurrence of such Flip-in Event equal to twice the exercise price (the "Exercise Price") for an amount in cash equal to the Exercise Price (such right to be subject to adjustment in accordance with the Rights Plan).

Any Rights held by an Acquiring Person will become void upon the occurrence of a Flip-in Event. Accordingly, any take-over bid other than a Permitted Bid or a Competing Permitted Bid would be prohibitively expensive for the Acquiring Person. The Rights Plan is therefore designed to require any person interested in acquiring 20 per cent or more of the Voting Shares of the Corporation to do so by way of a Permitted Bid or a Competing Permitted Bid or to make an offer which the Board considers to represent the full value of the Voting Shares.

The issue of the Rights is not initially dilutive. However, upon a Flip-in Event occurring and the Rights separating from the Common Shares and being exercised, holders of Rights not exercising their Rights may suffer substantial dilution.

Prior to the separation of the Rights from the Common Shares, the Rights are evidenced by a legend imprinted on certificates for Common Shares issued from and after the effective date of the Rights Plan and are not to be transferable separately from the Common Shares. From and after the separation of the Rights from the Common Shares, the Rights will be evidenced by Rights certificates which will be transferable separately from the Common Shares.

The requirements for a Permitted Bid include the following:

(a) the take-over bid must be made by way of a take-over bid circular;

(b) the take-over bid must be made to all holders of Voting Shares other than the bidder;

(c) the take-over bid must be outstanding for a minimum period of 60 days and Voting Shares tendered pursuant to the take-over bid may not be taken up prior to the expiry of the 60 day period and only if at such time more than 50 per cent of the Voting Shares held by the shareholders, other than the bidder, its affiliates and persons acting jointly or in concert and certain other persons (the "Independent Shareholders"), have been tendered to the take-over bid and not withdrawn;

(d) the Voting Shares deposited pursuant to the bid may be withdrawn until taken up and paid for; and

(e) if more than 50 per cent of the Voting Shares held by Independent Shareholders are tendered pursuant to the takeover bid within the 60 day period, the bidder must make a public announcement of that fact and the take-over bid must remain open for deposits of Voting Shares for an additional 10 business days from the date of such public announcement.

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

The Board, acting in good faith, may, prior to the occurrence of a Flip-in Event, waive the application of the Rights Plan to a particular Flip-in Event (an "Exempt Acquisition") where the take-over bid is made by way of a take-over bid circular to all shareholders. Where the Board exercises the waiver power for one take-over bid, the waiver will also apply to any other take-over bid for the Corporation made by way of a take-over bid circular to all shareholders prior to the expiry of any other bid for which the Rights Plan has been waived. The Board may also waive the application of the Rights Plan if a person becomes an Acquiring Person by inadvertence or reduces its beneficial ownership such that it is no longer an Acquiring Person.

The Board, with the approval of the majority of votes cast by Shareholders (or the holders of the Rights if the Rights have separated from the Common Shares) voting in person and by proxy, at a meeting duly called for that purpose, may redeem all of the then outstanding Rights at $0.00001 per Right as adjusted by the terms of the Rights Plan. Rights may also be redeemed by the Board without such approval following completion of a Permitted Bid, Competing Permitted Bid or Exempt Acquisition.

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

Investment managers (for fully managed accounts), mutual funds and their managers, trust companies (acting in their capacities as trustees and administrators), statutory bodies whose business includes the management of funds, administrators of registered pension plans and crown agents acquiring 20 per cent or more of the Voting Shares are exempted from triggering a Flip-in Event, provided that they are not making, or are not part of a group making, a take-over bid.

Ratings

As at March 10, 2011, the debt securities of the Corporation were rated BBB with a stable outlook by Standard & Poor's ("S&P") and Baa2 with a stable outlook by Moody's Investor Service ("Moody's").

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

2 indicates mid-range ranking and the modifier 3 indicates a ranking in the lower end of its generic rating category.

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

The credit ratings mentioned herein are not a recommendation to purchase, hold or sell the debt securities of the Corporation and do not comment as to market price or suitability for a particular investor. The Corporation cannot assure investors that any rating will remain in effect for any given period of time or that any rating will not be revised or withdrawn entirely by a rating agency in the future if in its judgment circumstances so warrant and, if any such rating is so revised or withdrawn, the Corporation is not under any obligation to update this AIF.

MARKET FOR SECURITIES

Price Range and Trading Volumes of Trust Units

The Common Shares are listed for trading on the TSX and trade under the symbol "COS". Prior to the Reorganization, the Units were listed for trading on the TSX and traded under the symbol "COS.UN".

The table below sets out the price ranges and volumes traded on the TSX for the Units during 2010.(1)

Month	High ($/Unit)	Low ($/Unit)	Close ($/Unit)	Volume Traded
January	30.67	27.35	27.74	25,915,850
February	29.94	27.63	27.95	22,414,968
March	30.98	27.55	30.45	27,995,505
April	33.05	29.51	30.75	33,152,589
May	31.30	25.48	28.64	29,802,340
June	29.66	26.55	26.99	30,833,873
July	29.66	26.41	26.96	30,945,830
August	27.51	24.61	25.08	38,884,129
September	27.04	24.24	25.46	53,248,008
October	26.94	25.44	25.56	26,518,424
November	28.12	25.67	27.91	34,195,575
December	28.65	24.30	26.45	52,672,812

Note 16 *Shareholders' Equity* of the audited consolidated annual financial statements of Canadian Oil Sands for the year ended December 31, 2010 is incorporated herein by reference.

Note:

(1) Upon completion of the Reorganization, the Units were delisted from the TSX on January 6, 2011.

Price Range and Trading Volumes of Common Shares

The table below sets out the price ranges and volumes traded on the TSX for the Common Shares during 2011.

Month	High ($/Common Share)	Low ($/Common Share)	Close ($/Common Share)	Volume Traded
January	27.49	24.98	27.49	58,336,541
February	30.95	27.51	30.05	61,198,820

Note:

(1) Upon completion of the Reorganization, the Common Shares commenced trading on the TSX on January 6, 2011.

DIRECTORS AND OFFICERS

Directors

Pursuant to the Reorganization, the board of directors of COSL became the board of directors of the Corporation and the Corporation established the same board committee structure and membership as COSL. As at March 10, 2011 and December 31, 2010, the directors of the Corporation are as set forth below. The Corporation's articles provide that the Corporation must have a minimum of three and a maximum of fifteen directors. The Corporation's directors are elected annually by the Shareholders. In addition, the Board may appoint from time to time one or more directors within the limits provided in the ABCA.

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

Name and Province and Country of Residence	Position Held and Principal Occupation	Year First Became a Director[4]
IAN A. BOURNE[1][2] Alberta, Canada	Corporate Director; Chairman, Ballard Power Systems Inc. (alternative energy)	2007
MARCEL R. COUTU Alberta, Canada	President and Chief Executive Officer, Canadian Oil Sands Limited	2001
DONALD J. LOWRY[1] Alberta, Canada	Chairman, Canadian Oil Sands Limited since October 1, 2009; Corporate Director; President and Chief Executive Officer, EPCOR Inc. (utilities)	2007
JOHN K. READ[2] Alberta, Canada	Corporate Director, President, John K. Read Investments Ltd. (private company)	2010
WAYNE M. NEWHOUSE[1][3] Alberta, Canada	Corporate Director	1996
BRANT G. SANGSTER[2][3] Alberta, Canada	Corporate Director	2006
C.E. (CHUCK) SHULTZ[1] [2] [3] Alberta, Canada	Corporate Director since October 1, 2009; prior thereto Chairman, Canadian Oil Sands Limited, Chairman and Chief Executive Officer, Dauntless Energy Inc. (private oil and gas corporation)	1996
WESLEY R. TWISS[1] [3] Alberta, Canada	Corporate Director	2001
JOHN B. ZAOZIRNY, Q.C. [2][3] Alberta, Canada	Corporate Director; Vice Chair, Canaccord Financial Corporation (investment firm); prior to January 1, 2008, Counsel, McCarthy Tétrault LLP (law firm)	1996

Notes:

(1) Member of the Audit Committee.

(2) Member of the Corporate Governance and Compensation Committee.

(3) Member of the Reserves, Marketing Operations and Environmental, Health & Safety Committee.

(4) All of the directors of the Corporation have been appointed to hold office until the next annual meeting of Shareholders or until their successors are duly elected or appointed, unless their office is earlier vacated.

Each of the directors listed above has been engaged in the occupation set forth in the above table or similar occupations with the same employer for the last five years except Mr. Bourne, who was President of TransAlta Power LP (power generation) from March 1998 to December 2006.

The Corporation does not have an executive committee. The Corporate Governance and Compensation Committee was formed in early 2002 and it acts as both the compensation and nominating committee. Effective January 1, 2007, the board created a Reserves, Marketing Operations and Environmental, Health & Safety Committee to deal with reserves matters, marketing matters and environmental, health and safety issues, taking over responsibility for reserves from the Audit Committee.

Officers

The following table identifies each of the officers of the Corporation, as at March 10, 2011, their jurisdiction of residence, their current office, and their principal occupations for the five-year period preceding December 31, 2010.

Name and Province and Country of Residence	Current Office	Five Year History of Principal Occupations
MARCEL R. COUTU Alberta, Canada	President and Chief Executive Officer	President and Chief Executive Officer of the Corporation
RYAN M. KUBIK Alberta, Canada	Chief Financial Officer	Chief Financial Officer of the Corporation since April, 2007; prior thereto, Treasurer of the Corporation from September, 2002 to April, 2007 with a dual role as Controller from July, 2005 to July, 2006
TRUDY M. CURRAN Alberta, Canada	General Counsel and Corporate Secretary	General Counsel and Corporate Secretary of the Corporation
ALLEN R. HAGERMAN, FCA Alberta, Canada	Executive Vice President	Executive Vice President of the Corporation since April, 2007; prior thereto, Chief Financial Officer of the Corporation from June, 2003 to April, 2007
TREVOR R. ROBERTS, Alberta, Canada	Chief Operations Officer	Chief Operations Officer of the Corporation since September, 2005
DARREN K. HARDY Alberta, Canada	Vice President, Operations	Vice President, Operations of the Corporation since September 2, 2008; prior thereto, Business Unit Manager of Syncrude Canada Ltd. from September, 1989 to August, 2008
ROBERT P. DAWSON Alberta, Canada	Vice President, Finance	Vice President, Finance of the Corporation since January, 2011; Treasurer of the Corporation from May, 2007 to December, 2010; prior thereto, Director, Financial Governance and External Reporting, Suncor Energy Inc. from March, 2004 to April, 2007
PHILIP D. BIRKBY Alberta, Canada	Controller	Controller of the Corporation since May, 2010; Director, Finance Services, Suncor Energy Inc. from August, 2009 to May, 2010; Director, Corporate Reporting, Petro-Canada from June, 2008 to August, 2009; prior thereto, Manager, Advisory Services, Petro-Canada from March, 2007 to June, 2008
SIREN FISEKCI Alberta, Canada	Vice President, Investor and Corporate Relations	Vice President, Investor and Corporate Relations of the Corporation since February, 2010; Director, Investor Relations of the Corporation from April, 2006 to February, 2010; prior thereto, Manager, Investor Relations of the Corporation from November, 2002 to April, 2006
SCOTT W. ARNOLD Alberta, Canada	Director, Sustainability and External Relations	Director, Sustainability and External Relations of the Corporation since January, 2011; Sustainability Officer of the Corporation from February 2010 to December, 2010; Assistant Treasurer of the Corporation from January, 2007 to February, 2010; prior thereto, Senior Financial Analyst of the Corporation from July, 2005 to January, 2007
DAVID J. SIRRS Alberta, Canada	Vice President, Marketing	Vice President, Marketing of the Corporation since January, 2011; prior thereto, Director, Marketing of the Corporation from February 2006 to December, 2010

Security Holdings

As of March 1, 2011, to the knowledge of the Corporation, the directors and officers of the Corporation, as a group, beneficially own, control or direct, directly or indirectly, 2,187,172 Common Shares, representing less than one per cent of the issued and outstanding Common Shares.

AUDIT COMMITTEE INFORMATION

Audit Committee Charter

The terms of reference for the Audit Committee are available on the Corporation's website at www.cdnoilsands.com/about-COS/governance/terms-of-reference and under the Corporation's profile on SEDAR at www.sedar.com. These terms of reference as at March 10, 2011 are attached hereto as Schedule "A".

Audit Committee Composition

The Audit Committee is comprised of the members listed below. The board has determined that each member of the Audit Committee is an "independent" director and is "financially literate" under applicable securities laws. In considering criteria for the determination of financial literacy, the board of directors considered the member's ability to read and understand a balance sheet, an income statement and a cash flow statement of a public company and to assess the general application of the accounting principles used to prepare such financial statements in connection with the accounting for estimates, accruals and reserves, the member's past experience in reviewing or overseeing the preparation of financial statements that present a breadth and level of complexity of issues that can reasonably be expected to be raised by Canadian Oil Sands' financial statements and the member's understanding of internal controls and procedures for financial reporting. Beside each member's name is such person's education and experience relevant to such member's performance as an Audit Committee member.

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

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

Audit Committee Pre-Approval Policies for Non-Audit Services

The Audit Committee has adopted procedures relating to the engagement of non-audit services whereby any non-audit services over $25,000 must be pre-approved by the Chair of the Audit Committee or the Audit Committee itself and as such, the Corporation is relying on the exemption in Section 2.4 of National Instrument 52-110 *Audit Committees* in respect of de minimis non-audit services.

Audit Committee Oversight

Since January 1, 2010, all recommendations by the Audit Committee to nominate or compensate external auditors have been adopted by the board of directors.

Fees Paid to Auditors

The aggregate fees paid to PricewaterhouseCoopers LLP ("PwC") (exclusive of GST) in 2010 and 2009 were as follows:

Fees Descriptions	2010	2009
Audit	$359,000	$342,375
Audit Related	$66,300	$57,000
Tax	$184,908	$155,000
Other	$10,936	$3,600

Audit services generally relate to reviewing annual and interim financial statements and notes, conducting the annual audit and providing other services regulators may require of auditors as well as reviewing and testing results for internal controls over financial reporting. These may also include services for prospectuses, reports and other documents that are filed with securities regulators or other documents issued for securities offerings.

Audit-related services include consulting on accounting matters and attest services not directly linked to the financial statements that are required by regulators.

Tax services relate to tax compliance, tax advice and tax planning that are beyond the scope of the annual audit. These may include transfer-pricing surveys for the tax authorities, preparing corporate tax returns and advice and consulting on Canadian and U.S. tax matters, tax implications of capital market transactions and capital tax.

Other services include other professional services that PwC and/or its affiliates provide to Canadian Oil Sands from time to time.

The Audit Committee has restricted the auditors from providing any services that could reasonably be seen as functioning in the role of management, auditing their own work or acting in an advocate role for Canadian Oil Sands. In particular, the external auditor is not to provide bookkeeping functions, actuarial or appraisal services (other than related to tax services), internal audit, human resources, or legal services (other than for French translation services). The Audit Committee has defined what constitutes audit services, audit related services, tax services and other services.

All of the services provided and the amounts paid must be disclosed to the Audit Committee at the Audit Committee meeting immediately following such engagement.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Other than as disclosed in this AIF, no director or officer of the Corporation, nor any person or company who beneficially owns, or controls or directs, directly or indirectly, more than 10 per cent of the outstanding Common Shares, nor any associate or affiliate of any such persons, has a material interest, direct or indirect, in any transaction since January 1, 2008 that has materially affected or is reasonably expected to materially affect Canadian Oil Sands.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

There are no legal proceedings to which we are or were a party to or of which any of our property is or was the subject of, nor are there any proceedings known by us to be contemplated that involves a claim for damages, exclusive of interest and costs, in an amount exceeding 10 per cent of our current assets. In addition, there have not been any: (a) penalties or sanctions imposed against the Corporation by a court relating to securities legislation or by a securities regulatory authority during our financial year; (b) penalties or sanctions imposed by a court or regulatory body against the Corporation that would likely be considered important to a reasonable investor in making an investment decision; or (c) settlement agreements entered into by the Corporation before a court relating to securities legislation or with a securities regulatory authority during our financial year.

TRANSFER AGENT AND REGISTRARS

Computershare Trust Company of Canada is the transfer agent and registrar for the Common Shares at its offices in Vancouver, Calgary, Toronto and Montreal. They may be contacted at 600, 530 – 8th Avenue S.W., Calgary, Alberta T2P 3S8; phone (403) 267-6800; facsimile (403) 267-6529.

INTEREST OF EXPERTS

PricewaterhouseCoopers LLP

The Corporation's auditors are PwC, Chartered Accountants, who have prepared an independent auditors' report dated February 23, 2011 in respect of the Corporation's consolidated financial statements with accompanying notes as at and for the years ended December 31, 2010 and 2009. PwC has advised that they are independent with respect to the Corporation within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Alberta.

GLJ Petroleum Consultants Ltd.

In September, 2010, the Corporation appointed GLJ as the independent reserves evaluator for Canadian Oil Sands. The designated professionals of GLJ, as a group, own, directly or indirectly, less than one per cent of the outstanding Common Shares.

Burnet, Duckworth & Palmer LLP

Burnet, Duckworth & Palmer LLP ("BDP") provides legal advice to the Corporation from time to time. BDP provided an opinion regarding certain Canadian federal income tax consequences of the Reorganization in the management proxy circular of the Corporation dated March 15, 2010. As at March 15, 2010, the partners and associates of BDP, as a group, owned, directly or indirectly, less than one per cent of the outstanding Common Shares.

Paul, Weiss, Rifkind, Wharton & Garrison LLP

Paul, Weiss, Rifkind, Wharton & Garrison LLP ("Paul Weiss") provides legal advice to the Corporation from time to time. Paul Weiss provided an opinion regarding certain U.S federal income tax consequences of the Reorganization in the management proxy circular of the Corporation dated March 15, 2010. As at March 15, 2010, the partners and associates of Paul Weiss, as a group, owned, directly or indirectly, less than one per cent of the outstanding Common Shares.

MATERIAL CONTRACTS

The following is a list of the material contracts required to be disclosed under National Instrument 51-102 *Continuous Disclosure Obligations* which were still in effect as of March 10, 2011 and for which copies may be found at www.sedar.com:

a) ***Shareholder Rights Plan Agreement dated as of December 31, 2010 between the Corporation and Computershare Investor Services Inc.***

The Shareholder Rights Plan was approved by Shareholders on April 29, 2010 in connection with the approval of the Reorganization. A copy of the document is available on SEDAR. See a description of the Shareholder Rights Plan on pages 54 to 56 of this AIF.

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

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

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

The agreements set out the basis upon which the Syncrude Participants will pay Crown Royalties to the Alberta government in respect of production from various leases in the Syncrude Project. See the description of the Crown Royalty Agreements on pages 9 to 10 and 31 to 32 of this AIF.

d) ***Bank Credit Facilities***

Each of the credit facilities of the Corporation is unsecured. The revolving and operating facilities contain typical covenants relating to the restriction on Canadian Oil Sands' ability to sell all or substantially all of its assets or to change the nature of its business. In addition, in the revolving and operating facilities, 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. The credit facilities were amended and restated in connection with and to reflect the Reorganization. There are currently three bank facilities as follows:

(i) <u>Extendible Revolving Term Facility restated as of December 30, 2010, with the Royal Bank of Canada</u>

The $40 million extendible revolving term facility is a 364-day facility with a one year term out, expiring April 22, 2011. This credit agreement is in the process of being extended. This facility may be extended on an annual basis with the agreement of the bank. Amounts borrowed through this facility bear interest at a floating rate based on bankers' acceptances plus a credit spread, while any unused amounts are subject to standby fees.

(ii) <u>Letter of Credit dated March 28, 2008, as amended, with the Canadian Imperial Bank of Commerce</u>

The $100 million line of credit is a one-year revolving letter of credit facility. Letters of credit written against 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.

(iii) <u>Operating Credit Facility among a syndicate of banks and the Corporation restated as of December 30, 2010</u>

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

e) ***Long term debt instruments***

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

The Senior Notes issued by the Corporation were placed in the United States and Canada under a private placement exemption. Each of the Senior Notes were issued under separate indentures.

The Senior Notes were amended and restated in connection with and to reflect the Reorganization.

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

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

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

On August 24, 2001 the Corporation issued US$250 million of 7.9 per cent Senior Notes, maturing September 1, 2021. Interest is payable on the notes semi-annually on March 1 and September 1. The Corporation has agreed to maintain its senior debt to book capitalization at an amount less than 55 per cent. Unlike the indentures relating to the other issuances of Senior Notes, this indenture contains a provision whereby if the ratings for the unsecured debt of the Corporation fall below investment grade, there is a step up in the amount of interest payable on the notes.

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

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

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

On May 11, 2009, the Corporation issued US$500 million of 7.75 per cent Senior Notes maturing on May 15, 2019. Interest is payable on the notes semi-annually on May 15 and November 15.

ADDITIONAL INFORMATION

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

In particular, additional information, including with respect to directors' and officers' remuneration and indebtedness, principal holders of the Corporation's securities and securities authorized for issuance under equity compensation plans, is contained in the Corporation's most recent management proxy circular for our most recent annual meeting of Shareholders that involved the election of directors. Additional financial information is also provided in the Corporation's consolidated comparative audited financial statements and notes thereto and unaudited MD&A for the year ended December 31, 2010.

SCHEDULE "A"

AUDIT COMMITTEE – TERMS OF REFERENCE

I. PURPOSE

A. The primary function of the Audit Committee (the "Committee") is to assist the Board of Directors (the "Board of Directors" or the "Board") of Canadian Oil Sands Limited ("COSL") in fulfilling its oversight responsibilities by reviewing:

   i) the financial information that will be provided to the shareholders of COSL and the public;

   ii) the systems of internal controls that management and the Board have established, including monitoring the integrity of the controls regarding financial reporting and accounting compliance; and

   iii) all audit processes.

B. Primary responsibility for the financial reporting, information systems, risk management and internal controls of COSL is vested in management and is overseen by the Board.

C. The Committee reviews and receives the reports of the internal auditor as part of the internal control oversight of COSL.

D. The Committee shall monitor the independence and performance of the external auditors and of the internal auditors of COSL.

II. CONSTITUTION, COMPOSITION AND DEFINITIONS

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

B. The Committee shall ensure that management advises the external auditors of the names of the Committee members and provides notice of and invites, where appropriate, the external auditors to attend meetings of the Committee. The Committee shall ensure that the external auditors are heard at those meetings on matters relating to the auditor's duties.

C. The Committee shall meet with the external auditors at least quarterly, and otherwise as it deems appropriate, to consider any matter that the Committee or the external auditors determine should be brought to the attention of the Board or shareholders.

D. The Committee shall meet at least four times each year. The Chair of the Committee may call additional meetings as required. In addition, a meeting may be called by the non-executive Chairman of the Board, the President & Chief Executive Officer, any member of the Committee or by the external auditors.

E. The Committee shall have the right to determine who shall and who shall not be present at any time during a Committee meeting. The President & Chief Executive Officer and the Chief Financial Officer of COSL are expected to be available to attend the Committee's meetings or portions thereof.

F. The Board shall appoint members to the Committee. Where a vacancy occurs at any time in the membership of the Committee, the Board may fill it. A majority of the Board may remove any member of the Committee at any time. If a member of the Committee ceases to be a Board member, then such individual shall automatically cease to be a member of the Committee.

G. The Committee shall be given access to senior management of COSL and all documents as required to fulfill its responsibilities and shall be provided with the resources necessary to carry out its responsibilities.

H. The Committee shall have the right to:

i) engage independent counsel and other advisors as it determines necessary to carry out its duties;

ii) to establish and pay the compensation for any advisors employed by the Committee; and

iii) to communicate directly with the external auditors and, if applicable, internal auditors.

I. The Committee provides open venues of communication among management, employees, external auditors and the Board.

J. The non-executive Chairman of the Board shall be a non-voting member of the Committee unless he is a member of the Committee in which case he shall have the same voting rights as any other member of the Committee.

K. The Secretary to the Committee shall be either the Corporate Secretary or his/her delegate.

L. Committee meetings may be held in person, by video conference, by means of telephone or other communication facility that permits all persons participating to hear each other.

M. Notice of the time and place of each meeting may be given orally, or in writing (including by electronic means) or by facsimile to each member of the Committee at least 48 hours prior to the time fixed for such meeting. Notice shall also be given to the external auditors. Any member and the external auditors may, in any manner, waive notice of the meeting. Attendance of a member or the external auditors at a meeting shall constitute waiver of notice of the meeting except where a member or the external auditors attend the meeting for the express purpose of objecting to the transaction of any business on the grounds that the meeting was not lawfully called.

N. A majority of members, present in person, by videoconference, telephone or other communication facility shall constitute a quorum.

O. All members of the Committee are expected to allow sufficient time to review meeting materials and be prepared for Committee meetings. Committee members are expected to attend most, if not all, Committee meetings.

P. The Chair of the Committee shall be appointed by the Board. The Chair shall preside as chair at each Committee meeting, lead Committee discussion on meeting agenda items and report to the Board, on behalf of the Committee, with respect to the proceedings of each Committee meeting. In the event that either the Chair or the Secretary is absent from any meeting, the members present shall designate any director present to act as Chair and shall designate any director, officer or employee of the Company to act as Secretary.

III. DUTIES AND RESPONSIBILITIES

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

A. <u>Financial Statements and Other Financial Information</u>

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

i) reviewing and recommending approval of the annual financial statements and management's discussion and analysis of COSL and report to the Board before the statements are approved by the Board;

ii) reviewing and approving the quarterly unaudited financial statements and management's discussion of COSL and approving the release of such financial statements and interim management's discussion and analysis to the public together with the press releases thereon;

iii) reviewing and authorizing for release any earnings release or guidance document to the public;

iv) reviewing and recommending to the Board for approval, the financial content of the annual report and of any material reports required by government or regulatory authorities;

v) reviewing and recommending for approval by the Board the Annual Information Form of COSL;

vi) reviewing and recommending to the Board for approval the financial content in any prospectus or offering memorandum;

vii) reviewing and discussing the appropriateness of accounting policies and financial reporting practices used by COSL;

viii) reviewing and discussing any significant proposed changes in financial reporting and accounting policies and practices to be adopted by COSL;

ix) reviewing and discussing any new or pending developments in accounting and reporting standards that may materially affect COSL;

x) reviewing and assessing the appropriateness of management's key estimates and judgments that may be material to financial reporting;

xi) reviewing and discussing with the internal auditors any matters which affect or may reasonably be expected to affect the accuracy or robustness of reporting as such relate to the financial statements or other financial disclosure matters;

xii) reviewing and discussing with management the use of "pro forma" or non-GAAP financial information and earnings guidance contained in news releases, any other public disclosure or any filings with the securities regulators and considering whether the information is consistent with the information contained in the financial statements of COSL; and

xiii) reviewing and reassessing annually that adequate procedures are in place to review any other corporate disclosure derived or extracted from financial statements.

B. <u>Financial Risk Management, Internal Control and Disclosure Control Systems</u>

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

i) review, at least annually, the financial risk management policies and practices of COSL as such relate to financial matters and accounting, it being recognized that the Board is responsible for the review of the overall risk management affecting COSL;

ii) obtain reasonable assurance from management or external sources as deemed appropriate that the disclosure control systems are reliable and the systems of disclosure and internal controls are properly designed and effectively implemented through discussions with and reports from management, the internal auditor, if such position exists, and the external auditor, as deemed appropriate by the Committee;

iii) review management steps to implement and maintain appropriate internal control procedures including a review of policies, including without limitation, internal controls over marketing;

iv) monitor compliance with statutory and regulatory obligations;

v) establish procedures for the receipt, retention and treatment of complaints received by COSL regarding accounting, internal accounting controls or auditing matters and establish procedures so that the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters are handled appropriately;

vi) review the report from the Risk Management Committee regarding any credit risk or violations of applicable marketing policies as part of the Committee's oversight of financial risk management for COSL; and

vii) review management's monitoring of compliance with COSL's Code of Business Conduct.

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

C. External Audit

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

i) review, assess the performance and recommend to the Board, for shareholder approval, the appointment, retention and compensation of the external auditors;

ii) review the annual external audit plan;

iii) meet with the external auditors to discuss quarterly and annual financial statements of COSL and the auditors' reports thereon;

iv) review and report to the Board with respect to the planning, conduct and reporting of the annual audit, including but not limited to:

a) any difficulties encountered, or restriction imposed by management, during the annual audit;

b) critical accounting policies and estimates and alternatives to such policies and estimates;

c) any significant accounting or financial reporting issue;

d) if appropriate, the auditors' evaluation of the system of internal controls, procedures and documentation for COSL;

e) the post audit or management letter containing any findings or recommendation of the external auditors, including management's response thereto and the subsequent follow-up to any identified disclosure or internal control weaknesses; and

f) any other material matters the external auditors bring to the Committee's attention;

v) review and pre-approve the non-audit services to be provided by the external auditors' firm or its affiliates (including estimated fees), and consider the impact on the independence of the external audit; where circumstances warrant, this pre-approval may be delegated to the Chair of the Committee;

vi) meet periodically, and at least quarterly, with the external auditors without management present;

vii) meet periodically, and at least quarterly, with management, without the external auditors present;

viii) review any decision by COSL to hire employees or former employees of COSL's current or former external auditors; and

ix) discuss and review with the external auditor, all relationships such auditor has with COSL as part of the assessment of the independence of the external auditor, as well as the external auditor's qualification and performance and the results of any internal reviews of the external audit firm as regards to any findings of inadequacies or concerns raised by external governance or regulating bodies.

D. <u>Internal Audit</u>

i) review the internal audit functions including:

(A) the purpose, authority and organizational reporting lines;

(B) the annual audit plan, budget and staffing thereof; and

(C) the results of the quarterly reporting memos and of the semi-annual and annual internal audit reports; and

ii) review, with the Chief Financial Officer, the Controller and others, as appropriate, the internal system of audit controls and the results of internal audits and consider the findings and the appropriateness of follow-up plans of the internal auditor.

E. <u>Tax</u>

i) review and approve any material changes to the corporate structure related to tax planning as proposed by management for COSL; and

ii) review all material tax issues.

F. **Other**

i) review material litigation as such impacts financial reporting;

ii) review policies and procedures for the review and approval of directors' and officers' expenses and perquisites, including the use of corporate assets, and consider the results of any review of these areas by an internal audit function, if available, or by the external auditors or a third party consultant, as the Committee deems applicable;

iii) review and approve a summary of the Committee's composition and responsibilities as well as summary of any audit, audit-related and other services by the external auditors for inclusion in the public disclosure documentation of COSL, including without limitation, any such disclosure contained in a management proxy circular;

iv) review any related party transactions between COSL and the directors and officers of COSL;

v) review any legal and regulatory matters that may have a material impact on the interim or annual financial statements that are brought to the attention of any member of the Committee or the Board;

vi) conduct or authorize investigation into any matters within the Committee's scope of responsibilities. The Committee shall be empowered to retain independent counsel, accountants or others to assist it in the conduct of any investigation;

vii) approve the appointment, re-assignment or removal of the Chief Financial Officer of COSL, subject to the recommendation of the Corporate Governance and Compensation Committee and the final approval of the Board;

viii) approve the appointment, re-assignment or removal of the internal auditor, if any exists, of COSL, subject to the recommendation of the Corporate Governance and Compensation Committee and the final approval of the Board; and

ix) the Committee shall have the authority to direct and to supervise the investigation into any matter brought to its attention within the scope of its duties. It shall establish procedures for the receipt, retention and treatment of:

   (A) Complaints COSL may receive regarding accounting, internal accounting controls, or auditing matters; and

   (B) Confidential, anonymous submissions from COSL employees expressing concern regarding questionable accounting or auditing matters.

IV. ACCOUNTABILITY

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

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

V. REVIEW

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

SCHEDULE "B"

FORM 51-101F2

REPORT ON RESERVES DATA
BY
INDEPENDENT QUALIFIED RESERVES
EVALUATOR OR AUDITOR

To the board of directors of Canadian Oil Sands Limited (the "**Company**"):

1. We have evaluated the Company's reserves data as at December 31, 2010. The reserves data are estimates of proved reserves and probable reserves and related future net revenue as at December 31, 2010, estimated using forecast prices and costs.

2. The reserves data are the responsibility of the Company's management. Our responsibility is to express an opinion on the reserves data based on our evaluation.

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

3. Those standards require that we plan and perform an evaluation to obtain reasonable assurance as to whether the reserves data are free of material misstatement. An evaluation also includes assessing whether the reserves data are in accordance with principles and definitions presented in the COGE Handbook.

4. The following table sets forth the estimated future net revenue (before deduction of income taxes) attributed to proved plus probable reserves, estimated using forecast prices and costs and calculated using a discount rate of 10 per cent, included in the reserves data of the Company evaluated by us for the year ended December 31, 2010, and identifies the respective portions thereof that we have audited, evaluated and reviewed and reported on to the Company's board of directors:

			Net Present Value of Future Net Revenue (before income taxes, 10% discount rate - million dollars)			
Independent Qualified Reserves Evaluator	Description and Preparation Date of Evaluation Report	Location Reserves (Country or Foreign Geographic Area)	Audited	Evaluated	Reviewed	**Total**
GLJ Petroleum Consultants	February 1, 2011	Canada	-	15,463	-	**15,463**

5. In our opinion, the reserves data respectively evaluated by us have, in all material respects, been determined and are in accordance with the COGE Handbook, consistently applied.

6. We have no responsibility to update our reports referred to in paragraph 4 for events and circumstances occurring after their respective preparation dates.

7. Because the reserves data are based on judgments regarding future events, actual results will vary and the variations may be material.

EXECUTED as to our report referred to above:

GLJ Petroleum Consultants Ltd., Calgary, Alberta, Canada, February 23, 2011

*(signed) "*James H. Willmon*"*
James H. Willmon, P. Eng.
Vice-President

SCHEDULE "C"

FORM 51-101F3

REPORT OF MANAGEMENT AND DIRECTORS ON RESERVES DATA AND OTHER INFORMATION

Report of Management and Directors on Reserves Data and Other Information

Management of Canadian Oil Sands Limited (the "**Company**") is responsible for the preparation and disclosure of information with respect to the Company's oil and gas activities in accordance with securities regulatory requirements. This information includes reserves data, which are estimates of proved reserves and probable reserves and related future net revenue as at December 31, 2010, estimated using forecast prices and costs.

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

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

(a) reviewed the Company's procedures for providing information to the independent qualified reserves evaluator;

(b) met with the independent qualified reserves evaluator to determine whether any restrictions affected the ability of the independent qualified reserves evaluator to report without reservation; and

(c) reviewed the reserves data with management and the independent qualified reserves evaluator.

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

(a) the content and filing with securities regulatory authorities of Form 51-101F1 containing reserves data and other oil and gas information;

(b) the filing of Form 51-101F2 which is the report of the independent qualified reserves evaluator on the reserves data; and

(c) the content and filing of this report.

Because the reserves data are based on judgements regarding future events, actual results will vary and the variations may be material.

CANADIAN OIL SANDS LIMITED

Signed "Marcel R. Coutu"	*Signed* "Trevor R. Roberts"
Name: Marcel R. Coutu	Name: Trevor R. Roberts
Title: President and Chief Executive Officer	Title: Chief Operations Officer
Signed "Wayne M. Newhouse"	*Signed* "Wesley R. Twiss"
Name: Wayne M. Newhouse	Name: Wesley R. Twiss
Title: Director	Title: Director

March 10, 2011