Canadian Oil Sands

Invested in our energy future

2010 Annual Report

A proven performer

Our investment in the oil sands is…

- **Superior** Syncrude's production is 100 per cent high-value, light, sweet crude oil. Having secured its premium land position early in the development of the oil sands industry, Syncrude's leases are bitumen-rich and located in the "sweet spot" of the Athabasca oil sands deposit. Nearly all of the bitumen deposits on these leases are close enough to the surface to be efficiently mined, a proven and reliable extraction method.

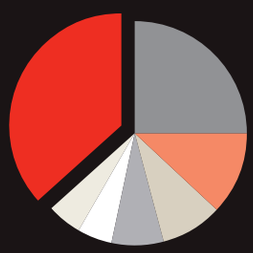
- **Experienced** With a track record of more than 30 years of operating experience in the oil sands, Syncrude has produced over 2 billion barrels of synthetic crude oil from its fully integrated upgrading facility. ExxonMobil and Imperial Oil provide global best-practice operational expertise as a foundation for superior performance and profitability.

- **Dependable** Syncrude benefits from a long-life resource base with low geologic and technical risk, thereby providing a reliable, long-term cash-generating asset base. Syncrude's productive capacity is 350,000 barrels per day and its reserve base could support production at that level for decades. Syncrude is also advancing plans to increase design capacity and broaden its product slate.

- **Sustainable** Syncrude applies advanced technologies to develop its oil sands resources in an environmentally responsible manner. Syncrude invests over $50 million annually in research and development to continuously enhance the efficient use of resources and minimize the project's impact on air, land and water.

- **Essential** The global demand for energy is expected to grow by more than 30 per cent over the next 25 years, driven primarily by emerging economies. Crude oil from the oil sands is a significant, growing, responsible and secure source of supply that creates tens of billions of dollars in economic benefits across Canada.

SYNCRUDE JOINT VENTURE
as of December 31, 2010



Canadian Oil Sands

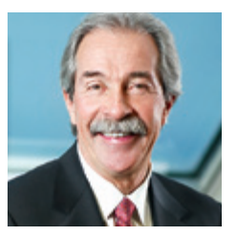
As the largest joint venture owner of Syncrude, a responsible oil sands producer, Canadian Oil Sands Limited is the premier pure-play investment in Canada's oil sands. We offer investors the unique combination of an established production base with a cash flow stream that is 100 per cent derived from high-quality synthetic crude oil with the potential for significant long-term growth.

INSIDE THIS REPORT

Internet Resources

This icon indicates where further resources are available on the Internet.

Important:
Please read the Advisory regarding forward-looking information on page 20 of this annual report.



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President and Chief Executive Officer **Marcel Coutu** discusses operating and financial results for 2010 and our outlook for 2011 and beyond.

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We believe that good governance is vital to the long-term success of our business.

An in-depth look at our strategic focus

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- **Capital Management:** Maximizing the value of the Syncrude asset for our shareholders.
- **Operations:** Focused on optimizing operations and establishing strong-sustained production for the long-term.
- **Development:** Well-positioned for long-term growth with significant resources and a pragmatic approach to expansions.
- **Sustainability:** Syncrude is a responsible producer of the energy the world needs.

FINANCIAL AND OPERATING HIGHLIGHTS

NET INCOME

+105%

Higher revenue from strong oil prices and increased sales volumes

SALES VOLUME

+4.3%

Higher reliability and less extensive upgrader maintenance

All references to "dollars" or "C$" are in Canadian dollars and all references to "US$" are in United States dollars	**2010**	2009	% change
FINANCIAL ($ millions, except per share amounts)			
Revenues, after crude oil purchases and transportation expense	**3,180**	2,615	22%
Net Income	**886**	432	105%
Per Share, basic & diluted	**1.83**	0.89	106%
Cash from operating activities	**1,219**	547	123%
Per Share	**2.52**	1.13	123%
Distributions	**896**	435	106%
Per Share	**1.85**	0.90	106%
RATIOS			
Net debt to cash from operating activities (times)	**1.0**	1.9	
Net debt to total capitalization (%)	**23**	21	
Return on average Shareholders' equity (%)	**22**	11	
Return on average productive capital employed (%)	**18**	7	
OPERATIONS			
Sales volumes, net of crude oil purchases			
Total (mmbbls)	**39.2**	37.6	4%
Daily average (bbls)	**107,280**	103,129	4%
Operating costs ($/bbl)	**36.76**	35.29	4%
Capital expenditures ($ millions)	**506**	409	24%
Net realized selling price ($/bbl)	**80.53**	69.47	16%
Average West Texas Intermediate (US$/bbl)	**79.61**	62.09	28%
Average foreign exchange rate (US$/C$)	**0.97**	0.88	1%
UNIT INFORMATION			
Closing Price on December 31 ($/Share)	**26.45**	29.91	–12%
Weighted-average shares (millions)	**484**	484	0%

A five-year statistical summary is provided on page 18.

Invested in our energy future

MARCEL R. COUTU
President and
Chief Executive Officer

Canadian Oil Sands (COS) is a unique investment opportunity. We are a pure crude oil investment with a long-term horizon. COS represents the only way to invest directly in Syncrude, one of Canada's most significant oil sands projects with a resource base stretching out for decades. Our long-term value is further bolstered by four key attributes, described in greater detail in my letter but summarized here as: (1) a high-quality resource; (2) a plan to optimize performance; (3) growth potential; and (4) a disciplined focus on investor returns.

Canadian Oil Sands marked a significant transition in its history in 2010 when it converted from an income trust to a corporation. The conversion was a necessary response to changes in Canadian tax rules, and does not impact our business fundamentals. It does, however, provide greater opportunity to communicate our investment merits to a much broader group of investors, many of whom were precluded from investing in COS because of the trust structure.

A history of strong returns

Knowing where we come from provides a better sense of where we are headed. Canadian Oil Sands was formed in 1995 as an income trust and over our history has delivered strong investor returns. Our average annual total return over that time was an impressive 25 per cent.

Our success has been a result of expanding Syncrude's operations, growing our ownership in the project from 11.74 per cent to 36.74 per cent, and sharing the benefits of rising oil prices and growing production volumes through cash distributions and capital appreciation.

"Underpinning our stable, growing production base is a high-quality, long-life crude oil resource."

WHAT IS THE MANAGEMENT SERVICE AGREEMENT (MSA)?

Syncrude Canada and Imperial Oil Resources entered into the MSA in late 2006. The agreement is directed at improving operational performance by enabling Syncrude to access Imperial Oil/ExxonMobil's global best practices, systems and senior management expertise. The MSA also provides ExxonMobil's project management support for Syncrude's large capital projects, including expansions. The initial term of the agreement is 10 years with 5-year renewal provisions; Imperial Oil Resources receives service fees, and potential fee incentives if certain performance targets are met.

We have never run our business like a typical income trust. All along, we have managed with a view to growing our asset base and shareholder value over the long-term. Our focus has been to expand and improve Syncrude's operations, maintain a prudent financial position, provide full exposure to crude oil prices, avoid equity dilution, and distribute excess cash to our shareholders. That approach will not change. As we enter a new era as a corporation, our focus continues to be investing in our business to build long-term returns. We are invested in our energy future.

A high-quality resource

Underpinning the COS investment is a resource base that is second to none. The sheer size of Syncrude's resource is impressive, but just as important is the quality of that resource. Syncrude has produced over 2 billion barrels of synthetic oil over its 30 history and still has enough resource remaining to continue producing for decades. The quality of Syncrude's future resources also remains fairly consistent with similar ore grades and stripping ratios to what has already been produced. All of Syncrude's bitumen resource can be produced through mining methods. Compared to other methods of oil sands production, mining is lower risk in terms of reservoir recovery, with predictable recovery rates of 90 per cent plus, lower risk to rising natural gas prices, and lower risk to widening heavy/light crude oil price differentials.

A plan to optimize performance

In 2010, Syncrude production rose to 107 million barrels from 102 million barrels in 2009, representing the second best production record in its history. While an improvement, unplanned downtime in the upgrader caused production to fall short of expectations. Syncrude is focused on reducing unplanned downtime, aiming to increase the utilization rate of its facility from around 83 per cent – a rate that is already competitive in the oil sands industry – to an industry-leading utilization rate. Syncrude has the Management Services Agreement (MSA) with Imperial Oil and ExxonMobil to help it achieve that goal. Through the MSA, systems to improve all areas of the operations from reliability to energy management are being implemented. This effort is now under the direction of Syncrude's new CEO, Scott Sullivan. Mr. Sullivan is a 30-year ExxonMobil veteran who most recently led a complex petro-chemicals and refinery joint venture in China. I believe Mr. Sullivan will be an important catalyst in leveraging the skills of Syncrude's employees and the organization's 30-plus years of operating expertise to realize the full potential of the MSA.

While we share the frustration that better performance at Syncrude is not happening fast enough, we have set the foundation for progressive improvements. During the last two months of 2010, Syncrude produced an average 350,000 barrels per day, confirming again its ability to produce at design capacity rates.

Growth potential

Over the next decade, we plan to invest in our base operations and in expansions to grow production. By 2020, this is expected to result in bitumen production growth of 50 per cent to about 600,000 barrels per day. We expect to upgrade most of that bitumen into synthetic crude oil volumes of about 400,000 barrels per day by making modifications to our existing upgrader – high-return investments that also ensure Syncrude maintains low-risk exposure to heavy/light crude oil differentials.

The work begins in earnest this year with the relocation of two mine trains at our Aurora North mine followed by the construction of two new mine trains at our Mildred Lake mine. These projects should be completed by 2014, enhancing efficiency and establishing a strong, stable base of bitumen production for the next decade or two. We plan to embark on the next phase of Syncrude's

growth by constructing two additional new mine trains on an undeveloped group of leases called Aurora South. Plans for this expansion are being developed to a scope and cost estimate for staged approvals by Syncrude's owners. ExxonMobil will be the project manager for this expansion, just as they are for all of Syncrude's major projects, another important benefit under the MSA.

Disciplined focus on investor returns

During 2010, COS increased distributions to $1.85 per unit from $0.90 paid in 2009. The increase reflects higher crude oil prices and production, but also our stated intention to elevate the distribution in order to build tax pools. At the end of 2010, we had secured tax pools of approximately $2 billion to shelter future income while still retaining a strong balance sheet. Net debt at the end of 2010 was $1.2 billion, or 23 per cent of total capitalization.

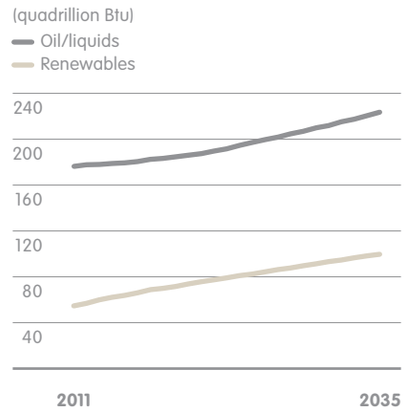
Going forward, our approach to dividend payments will be very similar to our history. Our priority is to invest in our business, which supports dividend growth and share price appreciation. During periods of lower investment, we intend to distribute excess cash through dividends. The dividend amount will vary, depending on capital investment and crude oil price cycles. We recognize the importance of dividends to our shareholders, having provided a total of $12.88 per share since inception in 1995 ($64.40 per share pre-5:1 split in 2006).

For 2011, our capital budget is $927 million. Roughly one-third is directed toward mine train relocations/replacements, a third to maintenance of business and a third to environmental projects. These investments are aimed at building sustainable and cost-efficient operations. Reflective of this capital budget, we set a dividend of $0.20 per share for the first quarter of 2011.

A pure crude oil investment with a future

As I look to 2011 and beyond, I continue to be very encouraged by our business prospects. We expect operations to improve, resulting in higher production levels and profitability. Our capital investments in the business will strengthen and expand our asset base. Canadian Oil Sands will work to ensure our investors are positioned to capitalize on these developments by maintaining a strong balance sheet, thereby funding much of our growth internally while striving to avoid equity dilution and hedging.

PROJECTED WORLD ENERGY DEMAND
(quadrillion Btu)



SOURCE:
U.S. Energy Information Administration, International Energy Outlook 2010

While renewable sources of energy are predicted to become an increasingly important part of the world energy mix, fossil fuels, predominately oil, are still expected to represent 80 per cent of energy consumption in 2035.

"We believe Canada's oil sands are a national treasure."

Canadian Oil Sands
INVESTED IN OUR ENERGY FUTURE

Our new logo, comprised of oil droplets arranged to form a stylized maple leaf, and the tagline "Invested in Our Energy Future", reflect our pride in our role in the development of Canada's oil sands, a strategic resource securing Canada's energy future.

We provide Canadians with energy and economic benefits, while demonstrating a strong commitment to responsible environmental stewardship. Syncrude is an oil sands pioneer with a long history of advancing the technologies behind oil sands production and continually improving environmental performance.

Together, we are developing one of Canada's most valuable resources in a responsible manner on behalf of all Canadians.

SPEAKING TOUR GETS CANADIANS TALKING

During 2010, CEO Marcel Coutu met with students, business groups and media across Canada to foster a national dialogue about the oil sands. All participants were encouraged to share their opinions on a wide range of topics. For more information on Marcel's tour visit *www.cdnoilsands.com*

The outlook for the commodity we produce is robust. Global demand for energy is expected to grow, with crude oil remaining the dominant energy fuel. Renewable sources of energy should become increasingly important, but the world will still need crude oil for decades to meet its energy needs. The oil sands, therefore, have an important role in providing a safe, secure, ethical source of supply and by acting as a bridge to renewable sources of energy. While doing so, the oil sands provide thousands of jobs across the country and abroad, and contribute billions of dollars in royalties and taxes to help fund Canadian health, education and infrastructure services.

Over the past year, I visited with Canadians from coast to coast to speak to them about the oil sands. My main message is that the oil sands should be viewed as a national treasure. I also stressed the need for energy conservation to help offset growing global demand.

I believe there is appreciation for the role of the oil sands in our economy and energy security, as well as growing recognition that this is a responsibly produced supply of crude oil. The oil sands industry is committed to continuing to improve environmental performance and is developing innovative ways to tackle our challenges. Syncrude has been a leader in developing technology, delivering benefits to both the environment and economics of the business through industry-changing developments such as low-energy extraction and hydrotransport. Since 1982, Syncrude has reduced energy use – and carbon dioxide emissions – per barrel by 39 per cent. I am pleased that, in recognition of Syncrude's performance, Canadian Oil Sands has been included in the 2010 Dow Jones Sustainability Index as a leader in the Oil and Gas Producers sector.

Indeed, we have all the elements to support our future success: a superior asset, commitment to responsible development and prudent financial management. Canadian Oil Sands continues to offer an investment opportunity that is highly correlated to the price of crude oil, representing the potential for value appreciation through rising crude oil prices and growing production volumes.

I am very proud of our business, and fortunate to be supported by a talented team dedicated to our success. A small, but very active team at COS is working to ensure this incomparable oil investment is optimized for the benefit of our investors. Dedicated to the same objective is our Board of Directors, many of whom are leaders in our community. Indeed, our Chairman, Don Lowry, was selected as Alberta's Business Person of the Year in 2010. Wayne Newhouse, one of our original Board members who is retiring this year, also deserves special recognition for his many years of service and his contributions as chair of our Reserves Committee.

Most important, I would like to thank our shareholders for their support. Together, we are invested in our energy future.

(signed)

Marcel R. Coutu
President and Chief Executive Officer
February 23, 2011

"Canadian Oil Sands has been included in the 2010 Dow Jones Sustainability Index as a leader in the Oil and Gas Producers sector."

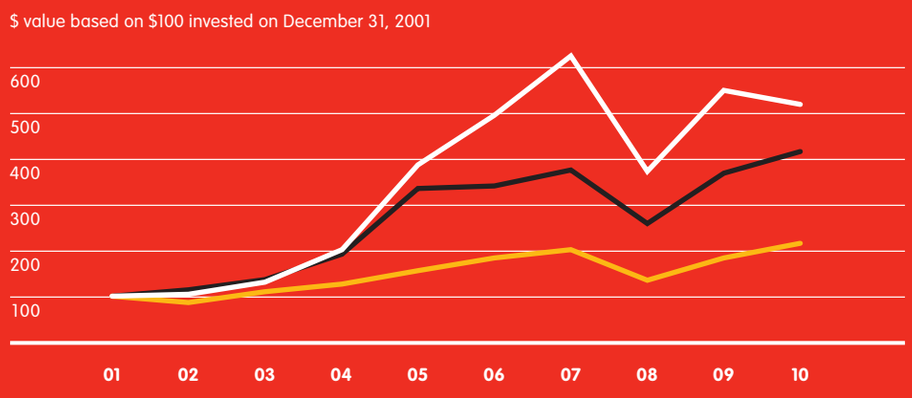
Dow Jones Sustainability Indexes
Member 2010/11

A proven strategy

An active, efficient team of 28 employees works at Canadian Oil Sands, providing operating, marketing, finance, accounting, and legal expertise to the organization. We have four main areas of strategic focus:

- **Management** of our Syncrude asset with the goal of building long-term value for our shareholders;
- Achieving industry-leading, reliable and safe **operations** at Syncrude;
- Evaluating **development** plans to leverage our significant reserve and resource base and expand Syncrude's productive capacity; and
- Building a **sustainable**, environmentally responsible business that delivers the energy the world needs.

TOTAL SHAREHOLDER RETURNS
(Capital appreciation + Reinvestment of all Distributions/Dividends)

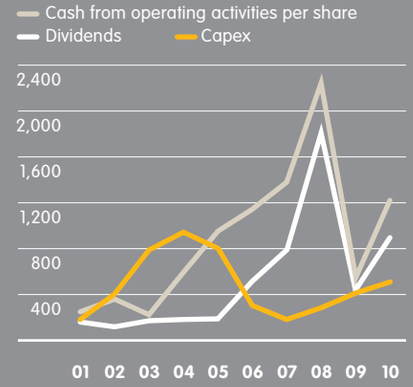


22%
return on equity in 2010

ABOVE: COS employees Rob Dawson (VP, Finance), Adrienne Nickerson (Director, Operations), Sheldon Ho (Senior Marketing Representative), Ryan Kubik (CFO) and Scott Arnold (Director, Sustainability and External Relations).

RIGHT: Our energy marketing group sells our product 100 per cent, light, sweet synthetic crude oil to markets in Canada and the U.S.

EFFICIENT CAPITAL MANAGEMENT
($ millions)



Maximizing the value of the Syncrude asset for our shareholders

Canadian Oil Sands' principal asset is our 36.74 per cent interest in the Syncrude project, providing investors with a pure-play investment opportunity in long-term crude oil production. We enhance the value of that asset through prudent financial management, experienced operations stewardship and in-house marketing expertise.

Financial management

Canadian Oil Sands converted from a trust to a corporation on December 31, 2010. This will not change how we manage our business. We will continue to take a disciplined, long-term view on capital management. Our priority is to maintain a strong balance sheet to support our business through commodity price cycles, provide capacity to invest in our business, and maintain access to capital markets. A strong balance sheet also allows us to control risk and provide investors with full exposure to crude oil prices.

We intend to invest a portion of the cash generated by our business in further economic oil sands opportunities, including capital to sustain and grow production at Syncrude. Excess cash will be returned to investors through quarterly dividends, a strategy that reflects our past practice. Since 1995, the cash payout level has fluctuated significantly over time, mainly reflecting the capital cycles at Syncrude and global crude oil prices.

We expect the dividend amount to continue to vary, although our longer-term approach to financial management includes a philosophy of continued dividend payments through commodity and capital investment cycles.

In 2010, we successfully executed a plan to increase tax pools to about $2 billion, which we expect to fully shelter taxable income for approximately one to two years, depending largely on oil prices.

Operations stewardship

Operationally, Canadian Oil Sands plays an important role in working with other Syncrude owners to set the strategic direction for the project and approve significant operational decisions. Marcel Coutu, our President and Chief Executive Officer, is the Chairman of Syncrude's Board of Directors and chairs the Management Committee. This committee oversees the Syncrude project on behalf of the owners, reviewing and approving strategic plans, objectives, the annual budget and major capital expenditures. Other members of COS' executive provide leadership in the governance of Syncrude by chairing the following committees: Audit and Business Controls, Growth and Development Planning and Major Projects, and Human Resources/Compensation.

Marketing expertise

Our in-house marketing team focuses on delivering our product, optimizing our product pricing, monitoring and responding to the direction of crude oil markets, managing our risk profile and maintaining strong relationships with our customers.

SCORECARD

Accomplishments as planned

- Completed conversion to a corporation
- $2 billion of tax pools to mitigate future tax liabilities
- Maintained a strong financial position, with a net debt balance of $1.2 billion at December 31, 2010

2011 Plan

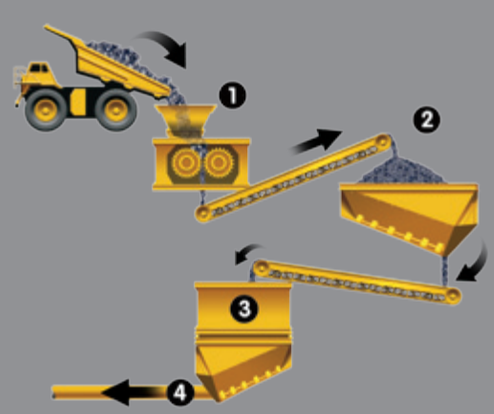
- Improve Syncrude reliability in a safe and environmentally responsible manner
- Maintain strong production and operating cost targets in anticipation of funding large capital projects at Syncrude
- Maintain discipline of paying a quarterly dividend

>2 billion

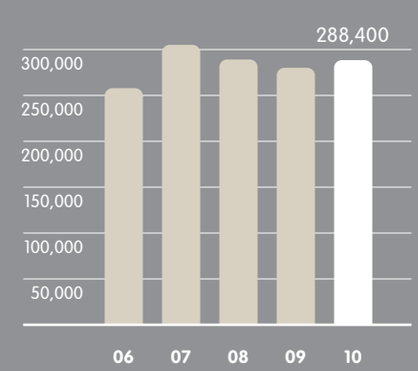
barrels produced at Syncrude to date

ABOVE AND RIGHT: Mine trains are the modular units for crushing and mixing the oil sands with warm water to facilitate the extraction of bitumen from the oil sands. Syncrude is moving four of its five mine trains to vacate the pit for the placement of tailings.

RIGHT: How a mine train works: (1) Trucks dump into a Crusher (2) A Surge Bin regulates the oil sand's flow (3) Warm water is added to the oil sand in a Mix Box (4) The slurry proceeds to extraction via Hydrotransport, which conditions the oil sand for separation.



PRODUCTION OVER LAST 5 YEARS
(barrels per day, gross to Syncrude)



Focused on optimizing operations and establishing strong, sustained production for the long-term

Syncrude is a leader in Canada's oil sands industry, with a productive capacity equal to more than 15 per cent of Canada's energy requirements. After more than 30 years in operation, Syncrude production has surpassed 2 billion barrels of light, sweet synthetic crude oil – a highly desirable refinery feedstock that has historically received a price close to West Texas Intermediate. The Syncrude facility, operated by over 5,500 employees, is comprised of large oil sands mines, utilities plants, bitumen extraction plants, and an upgrading complex. In 2010, Syncrude produced 107 million barrels of synthetic crude, the second highest production level in its history. In 2009 Syncrude produced 102 million barrels.

Creating value through reliability

Operations at Syncrude are supported by Imperial Oil/ExxonMobil via a multi-year Management Services Agreement (MSA). The MSA allows Syncrude to access many of ExxonMobil's global best practices, proprietary systems and staff expertise.

The disciplined, vigorous approach prescribed by the MSA is directed at improving operational processes. While all Syncrude units have demonstrated the capability to operate at design rates for periods of time, unplanned capacity losses have resulted in suboptimal run lengths between maintenance cycles and prevented the operation from producing at annual design capacity of 350,000 barrels per day.

The main focus of the MSA is to decrease unplanned outages and increase facility reliability through a disciplined, plant-wide maintenance program and an engineering-based analysis of the root cause of all outages. The goal is to achieve longer, more predictable run lengths for each operating unit and a progressive improvement towards our ultimate goal of consistent production at design capacity. Due to the largely fixed-cost nature of Syncrude's operations, increasing production from current operations is also expected to reduce costs per barrel and enhance profitability.

Investing in Syncrude's future

During 2010 to 2014, substantial investments are being made at Syncrude to provide a solid foundation for sustained production levels over the next 10 to 20 years. Specifically, four of the five existing mine trains will be replaced or relocated. Plans are in place to coordinate these efforts such that production should not be affected.

We will take this opportunity to introduce new technologies to enhance operational efficiencies and capacity. For example, we expect that two of the mine trains will employ wet crushing technology, which is expected to improve reliability and increase recovery rates while reducing maintenance requirements.

SCORECARD

Accomplishments as planned

- Production increased by 5 million barrels (however, missed original guidance of 115 million barrels)
- Completed Coker 8-1 and LC finer turnarounds
- Investments in worker safety and training including initiating the implementation of the Operations Integrity Management System (OIMS) as a means to promote safe and reliable operations. Operations leaders also participated in ExxonMobil's Fundamentals of Safety program

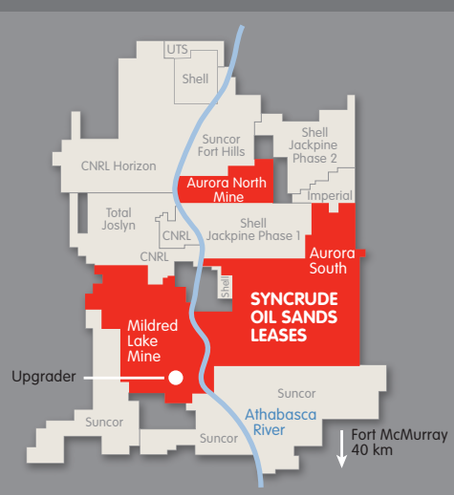
2011 Plan

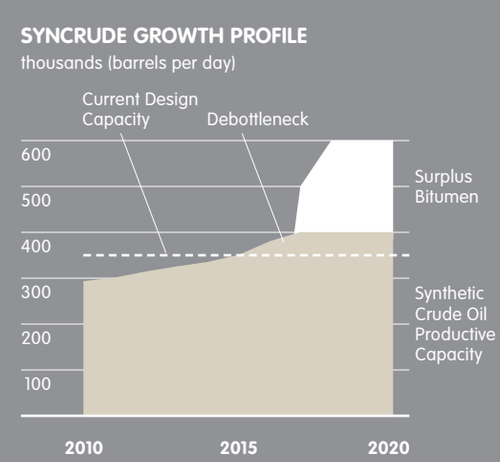
- Achieve about 3 per cent production growth through increasing reliability
- Relocate/rebuild mine trains, a multi-year effort through 2014
- Complete detailed engineering and announce total expected cost of multi-year mine train relocations
- Continue with the implementation of the MSA, with the goal of achieving industry-leading operating performance

50% increase in bitumen production by 2020

ABOVE: Each truckload hauls up to 400 tonnes of bitumen.

RIGHT: Syncrude has a vast resource base to support its future growth. Only the Mildred Lake mine and the Aurora North mine are under active development, with the largest block of leases east of the Athabasca River yet to be developed.





Well-positioned for long-term growth with significant reserves and resources and a pragmatic approach to expansions

Plans are being developed to substantially increase Syncrude's productive capacity of both bitumen and high-quality synthetic crude oil. These plans are supported by Syncrude's significant resource position encompassing some of the richest bitumen deposits in Canada's oil sands. The expansion project will be led by Imperial Oil/ ExxonMobil, a 25 per cent owner of Syncrude with significant expertise in building large projects.

Growing bitumen production

The expansion plans include the construction of two new mine trains at Aurora South, a currently undeveloped group of leases. This is expected to increase bitumen productive capacity by about 50 per cent or 200,000 barrels per day later this decade. All of Syncrude's bitumen resources, including our leases designated for future expansion, are suited for open pit mining. A key advantage of mining over other oil sands extraction technologies is the use of well-established and proven technologies that achieve higher rates of recovery of about 90 per cent while generating less carbon dioxide emissions per barrel.

Expanding upgrader capacity

Syncrude also plans to grow the productive capacity of the upgrader by unlocking latent capacity through a series of debottleneck projects. These projects involve accessing the surplus coking capacity constructed during Syncrude's last expansion, making modifications to other facilities, and potentially adding new ancillary units. Under today's market conditions, these expansion plans have the important advantage of growing production with less project execution risk and better economics than the construction of new upgrading facilities. Decisions on product qualities and potential investment in new upgrading facilities will be based on evolving crude oil markets, including the price differential between light and heavy product blends.

Broadening the product slate

With bitumen production growth outpacing upgrader productive capacity, Syncrude expects to broaden its product slate to include a new bitumen blend. This will allow for increased operational flexibility, including the ability to ship bitumen during periods of upgrader downtime, as well as the opportunity for Canadian Oil Sands to market multiple products. In the future, Syncrude expects to continue to be one of Canada's largest oil sands producers. By the end of the decade, roughly 150,000 barrels per day of bitumen is expected to be sold into the market, with the remaining bitumen production upgraded into approximately 400,000 barrels per day of synthetic oil.

SCORECARD

Accomplishments as planned

- Advanced plans to add bitumen supply from Aurora South
- Conducted drilling program to better define ore body
- Responded to technical inquiries from Energy Resources Conservation Board, further to the approval received for Aurora South in 1998

2011 Plan

- Continue planning for upgrader and bitumen growth
- Advance conceptual design to optimize scope

RESERVES AND RESOURCES

(billions of barrels of Synthetic Crude Oil)

	Syncrude	Canadian Oil Sands
Proved plus probable reserves	4.8	**1.8**
Contingent resources – best estimate	5.5	**2.0**
Prospective resources – best estimate	1.6	**0.6**

Based on independent reserves and resources estimates by GLJ Petroleum Consultants Ltd. as of December 31, 2010.

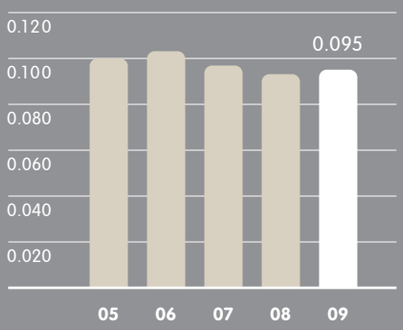
See reserves and resources cautionary advisory in Canadian Oil Sands' Annual Information Form dated March 22, 2011.

3,507 hectares
returned to nature

ABOVE: Peat vegetation at Syncrude's fen reclamation research plot.

RIGHT: Syncrude is taking action towards sustainable development. In 2011, Syncrude plans to invest $789 million in environmental capital projects and over $150 million on land reclamation.

SYNCRUDE GREENHOUSE GAS EMISSIONS
(tonnes per barrel)



2010 figure not available at time of printing

Syncrude is a responsible producer of the energy the world needs

Canadian Oil Sands has two roles in the responsible development of the oil sands. First, we steward Syncrude to ensure that environmental, social and economic considerations are integrated into its strategy and investment decision making. Second, we contribute to the industry's efforts to communicate to a wide range of stakeholders the challenges and opportunities around oil sands development, as well as industry efforts to balance the need for energy security and economic development with environmental and social responsibility.

Syncrude's approach to environmental responsibility is centred on developing resources efficiently while minimizing the impact on land, air and water.

Energy and climate change

Syncrude's greenhouse gas (GHG) emissions arise from the use of energy, including natural gas, in the production of crude oil. Since 1982, Syncrude has reduced its energy use per barrel by 39 per cent. Syncrude's goal is to further improve energy efficiency by 11 per cent from 2009 levels by 2013.

Tailings management

Tailings are a by-product of Syncrude's process to extract bitumen from oil sand. They are composed of water, sand, clay and other substances naturally found in oil sands deposits, and are stored in containment areas known as tailings ponds. These ponds play an important role in oil sands mining operations by recycling process water, which minimizes consumption of fresh water. The primary tailings management challenge is the long period of time that it can take for the fine clay and solids to settle.

In 2010, Syncrude became the first operating mine to receive conditional approval for a tailings management plan designed to meet the long-term intent of new regulations for drastically accelerating the reclamation of tailings ponds. Syncrude's plans incorporate a multi-pronged approach that features new centrifuging technology to rapidly separate the fine clay and solids from the water. Syncrude also participates in an industry consortium formed in December 2010 to share best practices and advance innovative tailings management technologies. In 2011, COS will invest $176 million to support these new tailings initiatives, representing nearly 20 per cent of our capital budget for the year.

Water conservation

Syncrude has reduced the water intensity of its process by about 60 per cent from levels in the early 1980s. Today, the facility recycles about 87 per cent of the water it uses, with much of the remainder lost to evaporation. It does not return any process-affected water to the river. Syncrude continues to advance technologies and process improvements to further reduce fresh water consumption and increase the use of recycled water.

Land reclamation

Syncrude progressively reclaims land disturbed by its operations. To the end of 2009, Syncrude has returned to nature 3,507 hectares and planted over 5 million trees; another approximately 1,000 hectares is currently in the reclamation process. It was the first oil sands operator to receive government certification for a reclaimed area, known as Gateway Hill. New reclamation efforts include the East and West Mine areas. The East Mine reclamation includes the construction of a 52-hectare wetland, expected to be the first reclaimed fen in the industry. The West Mine area is expected to be capped with water around 2012 to form a lake in the first commercial-scale demonstration of water capping as a reclamation technology.

SCORECARD

Accomplishments as planned

- Constructed a centrifuge pilot
- Began first large-scale reclamation of a fen wetland
- Continued reclamation of former East Mine
- Syncrude donated $5 million to support community initiatives with a focus on health care, education and local recreation
- Worked with other oil sands developers to foster a more balanced public discussion

2011 Plan

- Invest $290 million ($789 million gross to Syncrude) in environmental projects
- Complete the Syncrude Emissions Reduction (SER) project. Once this project is fully operational, Syncrude's sulphur compound emissions are expected to decline by approximately 60 per cent from current approved levels
- Complete filling the East Mine pit with composite tailings in preparation for full-scale planting to begin within three years

More information is available in Syncrude's sustainability and aboriginal reports, which can be found at www.syncrude.ca.

Strong, effective stewardship

At Canadian Oil Sands, integrity and accountability are the cornerstones of our business.

Canadian Oil Sands' Board of Directors is comprised of experienced leaders who share their financial, operational, governmental and regulatory experience in industry and, in particular, the oil and gas sector to provide effective stewardship of Canadian Oil Sands. Their objective is to responsibly create long-term value for our shareholders.

The Board has three permanent committees: Audit; Reserves, Marketing, Operations and Environmental Health and Safety; and Corporate Governance and Compensation (CGC).

Independence

All non-executive directors are considered independent of management under National Instrument 52-110 *Audit Committees* and National Policy 58-201 *Corporate Governance Guidelines*. Marcel Coutu, the President and Chief Executive Officer of COS, is the only Board member who is not considered independent.

In-camera sessions are conducted at each regularly scheduled meeting of the Board and its committees during which independent directors meet without any management.

Director Education

All new directors go through an extensive orientation and all directors engage in continuing education. For example, in 2010 our Board members attended sessions on topics ranging from COS' transition to International Financial Reporting Standards to advances made by Syncrude's dedicated research and development undertakings in improving operations and reducing environmental impact. On an ongoing basis, the Board also discusses developments and emerging best practices in corporate governance.

Five of our directors hold an ICD.D designation from the Institute of Corporate Directors.

Compensation

To ensure that directors' compensation is aligned with shareholder interests, each non-executive director is required to hold a substantial value of shares in COS. Specifically, each individual must hold three times the value of the annual Board retainer and the value of their annual common share purchase.

The CGC committee directly retains an external national human resource consulting firm to provide insight into best practices and provide market data and analysis to assist in determining Board member and management compensation.

Attendance

In 2010, attendance at board and committee meetings was nearly 100 per cent, reflecting our directors' high level of involvement and commitment.

BOARD OF DIRECTORS

Committee membership

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

For more information

Further information about COS' corporate governance, our Code of Business Conduct and our Shareholders Rights Plan, can be found on:

www.cdnoilsands.com

IAN A. BOURNE[1,2]
Corporate Director
Calgary, Alberta

MARCEL R. COUTU
President and
Chief Executive Officer,
Canadian Oil Sands Limited
Calgary, Alberta

DONALD J. LOWRY[2]
Chairman of the Board
President and
Chief Executive Officer,
EPCOR Utilities Inc.
Calgary, Alberta

WAYNE M. NEWHOUSE[2,3]
Corporate Director
Calgary, Alberta

JOHN K. READ[1]
Corporate Director
President, John K. Read
Investments Limited
Calgary, Alberta

BRANT SANGSTER[1,3]
Corporate Director
Calgary, Alberta

C.E. (CHUCK) SHULTZ[1,2,3]
Chairman Emeritus
of the Board
Chairman and
Chief Executive Officer,
Dauntless Energy Inc.
Calgary, Alberta

WESLEY R. TWISS[2,3]
Corporate Director
Calgary, Alberta

JOHN B. ZAOZIRNY[1,3]
Vice Chairman
Canaccord Capital
Corporation
Calgary, Alberta

STATISTICAL SUMMARY

($ millions, except as indicated)	**2010**	2009	2008	2007	2006
FINANCIAL					
Revenues, after crude oil purchases and transportation expense	**3,180**	2,615	4,169	3,250	2,432
Operating costs	**1,439**	1,328	1,368	1,034	907
Non-production costs	**105**	141	78	63	70
Crown royalties	**306**	228	599	485	232
Administration	**23**	24	17	20	17
Insurance	**11**	9	6	8	6
Interest, net	**91**	93	68	85	98
Depreciation, depletion and accretion	**408**	570	444	351	255
Goodwill impairment	**–**	52	–	–	–
Foreign exchange loss (gain)	**(60)**	(161)	159	(117)	(5)
Future income tax expense (recovery) and other	**(29)**	(101)	(93)	579	17
Income (loss) from discontinued operations	**–**	–	–	1	(1)
Net income	**886**	432	1,523	743	834
Per Share[1] ($)	**1.83**	0.89	3.17	1.55	1.79
Cash from operating activities	**1,219**	547	2,241	1,377	1,142
Per Share[1] ($)	**2.52**	1.13	4.66	2.87	2.45
Distributions	**896**	435	1,804	791	512
Per Share[1] ($)	**1.85**	0.90	3.75	1.65	1.10
Capital expenditures	**506**	409	281	183	300
RESERVES (billions of SCO bbls, net to COS)					
Proved reserves	**0.9**	1.0	1.0	1.0	1.0
Proved plus probable reserves	**1.8**	1.9	1.8	1.8	1.8
Contingent resources	**2.0**	1.8	2.0	2.1	1.4
Prospective resources	**0.6**	0.7	0.8	0.8	N/A
AVERAGE DAILY SALES (bbls)[2]	**107,280**	103,129	105,986	112,298	91,844
OPERATING NETBACK ($/bbl)					
Net realized SCO selling price	**80.53**	69.47	107.47	79.29	72.56
Operating costs	**36.76**	35.29	35.26	25.23	27.07
Crown royalties	**7.80**	6.06	15.44	11.83	6.93
Netback price	**35.97**	28.12	56.77	42.23	38.56
FINANCIAL RATIOS					
Net debt to cash from operating activities (times)	**1.0**	1.9	0.4	0.7	1.1
Net debt to total capitalization (%)	**23.0**	21.0	20.0	18.6	24.6
Return on average productive capital employed (%)	**17.5**	6.7	33.9	24.7	24.4
Return on average Shareholders' equity (%)	**22.3**	11.0	37.7	18.3	22.7
$/SHARE PRICES[1]					
High	**33.05**	39.89	55.25	38.88	38.75
Low	**24.24**	16.65	18.15	25.09	24.32
Close	**26.45**	29.91	21.10	38.71	32.61
Trading volume (millions of shares)	**412.7**	416.0	463.6	373.8	406.6
Number of Shares outstanding (in millions)	**484.4**	484.4	481.6	479.4	470.9

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

2 The Corporation's sales volumes differ from its production volumes due to changes in inventory, which are primarily in-transit pipeline volumes, and are after purchased crude oil volumes.

Officers

MARCEL R. COUTU
President and Chief Executive Officer

RYAN M. KUBIK
Chief Financial Officer

TRUDY M. CURRAN
General Counsel and Corporate Secretary

ALLEN R. HAGERMAN, FCA
Executive Vice President

TREVOR R. ROBERTS
Chief Operations Officer

DARREN K. HARDY
Vice President, Operations

ROBERT P. DAWSON
Vice President, Finance

PHILIP BIRKBY
Controller

SIREN FISEKCI
Vice President, Investor and Corporate Relations

SCOTT W. ARNOLD
Director, Sustainability and External Relations

DAVID SIRRS
Vice President, Marketing

Board of Directors

DONALD J. LOWRY[2]
Chairman of the Board
President and Chief Executive Officer
EPCOR Utilities Inc.
Edmonton, Alberta

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Calgary, Alberta

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JOHN B. ZAOZIRNY, Q.C.[1,3]
Canaccord Financial Corporation
Calgary, Alberta

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

Toronto Stock Exchange
COS

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

COMPUTERSHARE TRUST COMPANY OF CANADA
600, 530 – 8th Avenue SW
Calgary, Alberta T2P 3S8
Telephone: 1 (800) 564-6253
Fax: (403) 267-6598
E-mail: service@computershare.com

Auditors
PRICEWATERHOUSECOOPERS LLP
CHARTERED ACCOUNTANTS
Calgary, Alberta

Independent Qualified Reserves Evaluators
GLJ PETROLEUM CONSULTANTS LTD
Calgary, Alberta

Internal Auditors
DELOITTE & TOUCHE LLP
Calgary, Alberta

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

Investor and Media Contact
SIREN FISEKCI
Vice President, Investor and Corporate Relations
Telephone: (403) 218-6220
Fax: (403) 218-6201
Email: invest@cdnoilsands.com

Notice of Meeting
Canadian Oil Sands' 2010 Annual Meeting will be held in the Metropolitan Conference Centre, The Ballroom, 333 – 4th Avenue SW, Calgary, Alberta on Thursday, April 28, 2011 at 2:30 pm (MST). All shareholders are invited to attend, and those unable to do so are requested to sign and return the form of proxy mailed with this report to ensure representation at the meeting. The meeting will be webcast on our website at www.cdnoilsands.com.

In the interest of providing shareholders and potential investors of Canadian Oil Sands Limited (the "Corporation" or "Canadian Oil Sands") with information regarding the Corporation, including management's assessment of the Corporation's future production and cost estimates, plans and Syncrude operations, certain statements throughout this annual report contain "forward-looking statements" under applicable securities law. Forward-looking statements are typically identified by words such as "anticipate", "expect", "believe", "plan", "intend" or similar words suggesting future outcomes. Forward-looking statements in this annual report include, but are not limited to, statements with respect to: the ability of Syncrude's reserve base to support production for decades; the quality of Syncrude's leases; the expected benefits of the management services agreement; the belief that bitumen can be produced by mining with recovery rates of 90 per cent plus; increasing the utilization rate of the Syncrude facility from around 83 per cent; the expectation that we have the ability to substantially grow production at Syncrude through controlled expansions; the plans regarding the mine train moves; the level and timing of growth and production volumes expected from the upgrader debottleneck and Aurora South development; future dividends and any increase or decrease from current payment amounts; the expected capital budget for 2011; the expectation that operations will improve, resulting in higher production levels and profitability; plans regarding crude oil hedges in the future; the belief that global demand for energy will grow, with crude oil remaining the dominant energy fuel; the belief that the world will need crude oil for decades to meet its energy needs; the management of Canadian Oil Sands' business after the conversion to a corporate structure; the ability of the Corporation's tax pools to fully shelter taxable income for approximately one or two years; the cost savings and efficiencies from wet crushing technologies; achieving a 3 per cent production growth in 2011 through increased reliability; the decisions on product qualities and potential investments in new upgrading facilities; the anticipated operational flexibility resulting from Syncrude broadening its product slate to include bitumen; the estimated value and amount of reserves and resources recoverable; the expectation that Syncrude will continue to develop better and more sustainable practices; Syncrude's goal to improve energy efficiency by 11 per cent from 2009 levels by 2013; the amount of investment in tailings initiatives by Syncrude in 2011; the plans to reduce sulphur dioxide emissions by 60 per cent from current approved levels through the Syncrude Emissions Reduction project and the expectations regarding the East Mine and the West Mine reclamations. You are cautioned not to place undue reliance on forward-looking statements, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will not occur. Although the Corporation believes that the expectations represented by such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. Some of the risks and other factors that could cause results to differ materially from those expressed in the forward-looking statements contained in this annual report include, but are not limited to: the supply and demand metrics for oil and natural gas; general economic, business and market conditions and in particular, the impact of any downturn in the economy and the length of such economic recession; risks inherent to the operation of any large, complex refinery units, especially the integration between mining operations and an upgrader facility; regulatory changes which may impact the penalties on greenhouse gas emitters and operators with tailings ponds; labour shortages and the productivity achieved from labour in the Fort McMurray area; the impact of technology on operations and processes and how new complex technology may not perform as expected; currency and interest rate fluctuations; the availability of pipeline and global refining capacity; changes in business strategy; the availability and price of energy commodities; regulatory decisions; the effects of competition and pricing pressures; shifts in market demands; changes in laws and regulations including environmental and regulatory laws; potential increases in costs; the unanimous joint venture owner approval for major expansions and changes in product types; the impact of Syncrude not being able to meet the conditions of its approval for its tailings management plan under Directive 074; timing of completion of capital or maintenance projects; the availability of adequate levels of insurance; various events which could disrupt operations including severe weather conditions; technological changes and management retention and development and such other risks and uncertainties described from time to time in the reports and filings made with securities regulatory authorities by the Corporation and the assumptions outlined in the guidance for 2011 actually occurring. You are cautioned that the foregoing list of important factors is not exhaustive. Furthermore, the forward-looking statements contained in this annual report are made as of the date of this annual report and unless required by law, the Corporation does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise. The forward-looking statements contained in this annual report are expressly qualified by this cautionary statement. In any reference to resources in this annual report, there is no certainty that any portion of the resources will be discovered. If discovered, there is no certainty that it will be commercially viable to produce any portion of the resources. Unless otherwise specified, all dollar amounts are expressed in Canadian dollars, all references to "dollars" or "$" are to Canadian dollars and all references to "US$" are to United States dollars.

Non-GAAP financial measures

In this annual report 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 share basis, net debt, net debt to cash from operating activities, net debt to total capitalization, return on average shareholder equity, return on average productive capital employed and certain per barrel measures. Cash from operating activities per share is calculated as cash from operating activities reported on the Consolidated Statements of Cash Flows divided by the weighted average number of 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 price and operating costs, which are also 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 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.

Post-conversion financial information

As a result of our conversion from an income trust structure to a corporate structure on December 31, 2010, pursuant to which all outstanding units of Canadian Oil Sands Trust were exchanged on a one-for-one basis for common shares of the Corporation, the post conversion financial information of Canadian Oil Sands refers to common shares or shares, shareholders and dividends which were formerly referred to as units, unitholders and distributions under the trust structure.

GLOSSARY AND ABBREVIATIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

RESERVES AND RESOURCES DEFINITIONS

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

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

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

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

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

FINANCIAL METRICS

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

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

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

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

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

ABBREVIATIONS

American Petroleum Institute specific gravity: **API**

barrel(s): **bbl, bbls**

barrel(s)/day: **bbl/d, bbls/d, bpd**

carbon dioxide: **CO_2**

gigajoule: **GJ**

greenhouse gases: **GHG(s)**

millions of barrels: **mmbbls**

sulphur dioxide: **SO_2**

Syncrude crude oil: **SCO**

thousands of barrels: **mbbls**

West Texas Intermediate: **WTI**

DESIGN: CRAIB DESIGN AND COMMUNICATIONS www.craib.com

Glossary and Abbreviations page is located behind inserted material.

Canadian Oil Sands

INVESTED IN OUR ENERGY FUTURE

Canadian Oil Sands

Invested in our energy future

2010 Financial Review

Canadian Oil Sands provides a pure investment opportunity in the oil sands through its 36.74 per cent interest in the Syncrude Project. Syncrude is a leader in Canada's oil sands industry, operating since 1978 with a productive capacity today of 350,000 barrels per day of light, high quality crude oil.

As the largest owner of Syncrude, we are proud to have a legacy asset that epitomizes the best attributes of an oil sands investment: high quality leases; a track record of successful operations; a sustainable approach to the development of our long life resource; and a product high quality, sweet crude oil that is essential to the global economy.

CONTENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") was prepared as of February 23, 2011 and should be read in conjunction with the audited Consolidated Financial Statements and notes thereto of Canadian Oil Sands Limited ("Canadian Oil Sands" or the "Corporation") for the years ending December 31, 2010 and December 31, 2009. References to Canadian Oil Sands include the Corporation and Canadian Oil Sands Trust (the "Trust"), prior to its dissolution. The financial results of Canadian Oil Sands have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are reported in Canadian dollars, unless stated otherwise. ***As a result of our conversion from an income trust structure to a corporate structure on December 31, 2010 pursuant to which all outstanding Units of the Trust were exchanged on a one-for-one basis for common shares of the Corporation, the post conversion financial information of Canadian Oil Sands refers to common shares or shares, shareholders and dividends which were formerly referred to as Units, Unitholders and distributions under the trust structure.***

ADVISORY- in the interest of providing the Corporation's Shareholders and potential investors with information regarding the Canadian Oil Sands, including management's assessment of the Corporation's future production and cost estimates, plans and operations, certain statements throughout this MD&A contain "forward-looking statements" under applicable securities law. Forward-looking statements are typically identified by words such as "anticipate", "expect", "believe", "plan", "intend", or similar words suggesting future outcomes. Forward-looking statements in this MD&A include, but are not limited to, statements with respect to the cost estimate for the Sulphur Emissions Reduction ("SER") project and the expectation that the SER project will significantly reduce total sulphur dioxide and other emissions; the completion date for the SER project; future dividends and any increase or decrease from current payment amounts; the establishment of future dividend levels with the intent of absorbing short-term market volatility over several quarters; Crown royalties payable; plans regarding crude oil hedges and currency hedges in the future; the expected production, revenues and operating costs for 2011; the expected level of investment capital for the next few years and longer term; the belief that debt covenants will not influence the Corporation's liquidity in the foreseeable future or limit the Corporation's ability to pay dividends; the plans regarding the Corporation's net debt level; the plans and expected impact of adopting International Financial Reporting Standards including, without limitation, its impact on the Corporation's accounting policies, financial statement disclosure, information technology requirements, data systems, internal controls and business activities, and the results that the Syncrude Joint Venture ("Syncrude") reports to the Corporation; the belief that the Corporation will not be restricted by its net debt to total capitalization financial covenant; the expected funding increases for the Corporation's share of Syncrude's pension and reclamation funding; the plans regarding the mine train relocations and replacements; the expectation that a commercial scale water capping pond will be commissioned in 2012; the expected realized selling price, which includes the anticipated differential to WTI to be received in 2011 for Canadian Oil Sands' product; the level of natural gas consumption in 2011; the expected price for crude oil and natural gas in 2011; and the anticipated impact that certain factors such as natural gas and oil prices, foreign exchange and operating costs have on the Corporation's cash from operating activities and net income. You are cautioned not to place undue reliance on forward-looking statements, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will not occur. Although the Corporation believes that the

expectations represented by such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. Some of the risks and other factors which could cause results to differ materially from those expressed in the forward-looking statements contained in this MD&A include, but are not limited to: the impacts of legislative or regulatory changes especially as such relate to royalties, taxation, the environment and tailings; the impact of technology on operations and processes and how new complex technology may not perform as expected; skilled labour shortages and the productivity achieved from labour in the Fort McMurray area; the supply and demand metrics for oil and natural gas; the impact that pipeline capacity and refinery demand have on prices for our products; the unanimous joint venture owner approval for major expansions and changes in product types; the variances of stock market activities generally; global economic conditions/volatility; normal risks associated with litigation, general economic, business and market conditions; the impact of Syncrude being unable to meet the conditions of its approval for its tailings management plan under Directive 074, and such other risks and uncertainties described from time to time in the Corporation's Annual Information Form and in the reports and filings made with securities regulatory authorities by Canadian Oil Sands as well as those assumptions outlined in the Corporation's guidance document being correct. In relation to a reference to resources, there is no certainty that such resources will be commercially viable to produce any portion of the resources. You are cautioned that the foregoing list of important factors is not exhaustive. Furthermore, the forward-looking statements contained in this MD&A are made as of the date of this MD&A, and unless required by law, the Corporation does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

NON-GAAP FINANCIAL MEASURES - In this MD&A we refer to financial measures that do not have any standardized meaning as prescribed by Canadian generally accepted accounting principles ("GAAP"). These non-GAAP financial measures include cash from operating activities on a per Share basis, net debt, total capitalization, net debt to total capitalization, and certain per barrel measures. Cash from operating activities per Share is calculated as cash from operating activities reported on the Consolidated Statement of Cash Flows divided by the weighted-average number of Shares outstanding in the period. This measure is an indicator of the Corporation's capacity to fund capital expenditures, other investing activities, and dividends 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. 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.

CORPORATE CONVERSION

On December 31, 2010, Canadian Oil Sands Trust (the "Trust") completed its previously announced reorganization from an income trust structure into a corporate structure (the "Corporate Conversion"). The Corporate Conversion was previously approved by Canadian Oil Sands' Board on January 28, 2010 and by the Trust's Unitholders at the Annual and Special Meeting held on April 29, 2010. Pursuant to the Corporate Conversion, all outstanding Units in the Trust ("Trust Units") were exchanged on a one-for-one basis for common shares ("Shares") of Canadian Oil Sands Limited.

BUSINESS DESCRIPTION

Canadian Oil Sands is the largest joint venture owner of the Syncrude Joint Venture ("Syncrude"), a major producer of high quality, low sulphur, light, synthetic crude oil ("SCO"). Canadian Oil Sands' only major asset is a 36.74 per cent working interest in Syncrude, generating revenue from its share of production, and represents the only public opportunity for undiversified investment directly in Syncrude.

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

The productive capacity of Syncrude's facilities is approximately 350,000 barrels per day of SCO, on average, including an allowance for downtime, and is referred to as "barrels per calendar day". All references to Syncrude's productive capacity in this report refer to barrels per calendar day, unless stated otherwise. Canadian Oil Sands' production volumes differ from its sales volumes due to changes in inventory, which are primarily in-transit pipeline volumes.

Based on evaluations performed in accordance with the COGE Handbook by our qualified independent petroleum reserve evaluators effective December 31, 2010, Canadian Oil Sands estimates Syncrude's proved plus probable reserves at 4.8 billion barrels (1.8 billion barrels net to the Corporation), best estimate contingent resources at 5.5 billion barrels (2.0 billion barrels net to the Corporation) and best estimate prospective resources at 1.6 billion barrels (0.6 billion barrels net to the Corporation). Based on the current annual production outlook for 2011 of 110 million barrels, or 40 million barrels net to Canadian Oil Sands, Syncrude's estimated proved plus probable reserve life is approximately 44 years. More information regarding Canadian Oil Sands' reserves and resources can be found in the "Reserves Data and Other Information" section in our 2010 Annual Information Form ("AIF") dated March 10, 2011 at www.sedar.com or on our website at www.cdnoilsands.com.

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

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

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

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

EXECUTIVE SUMMARY

(millions of Canadian dollars, except per Share and per barrel volume amounts)	2010	2009
Cash from Operating Activities	$ 1,219	$ 547
Per Share	$ 2.52	$ 1.13
Net Income	$ 886	$ 432
Per Share - Basic	$ 1.83	$ 0.89
Sales Volumes [1]		
Total (MMbbls)	39.2	37.6
Daily average (bbls)	107,280	103,129
Net Realized SCO Selling Price (average $/bbl)	$ 80.53	$ 69.47
West Texas Intermediate (average $U.S./bbl) [2]	$ 79.61	$ 62.09
Operating Costs ($/bbl)	$ 36.76	$ 35.29
Capital expenditures	$ 506	$ 409
Distributions	$ 896	$ 435
Per Share	$ 1.85	$ 0.90

[1] The Corporation's sales volumes differ from its production volumes due to changes in inventory, which are primarily in-transit pipeline volumes, and are after purchased crude oil volumes.

[2] Pricing obtained from Bloomberg.

Cash from operating activities in 2010 totalled $1,219 million, or $2.52 per Share, compared with $547 million, or $1.13 per Share in 2009. Net income likewise increased in 2010 to $886 million, or $1.83 per Share, from $432 million, or $0.89 per Share, in 2009.

Syncrude's annual production in 2010 totalled 107.0 million barrels, or 293,000 barrels per day, the second highest production year on record and an increase of 4.8 million barrels from 102.2 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. Sales volumes, net to Canadian Oil Sands, increased to 39.2 million barrels, or 107,000 barrels per day, in 2010 from 37.6 million barrels, or 103,000 barrels per day, in 2009. Syncrude continues to focus on improving operational reliability to increase production and reduce per barrel operating costs.

Our 2010 realized selling price averaged $80.53 per barrel, an increase from $69.47 per barrel in 2009, as the price for U.S. dollar WTI oil continued to strengthen through 2010 after reaching lows of U.S. $34 per barrel early in 2009. U.S. dollar WTI prices averaged U.S. $79.61 per barrel in 2010, up from U.S. $62.09 per barrel in 2009. Partially offsetting these higher oil prices, the Canadian dollar was stronger in 2010, averaging $0.97 U.S./Cdn and closing at $1.01 U.S./Cdn at December 31, 2010 compared with a $0.88 U.S./Cdn average rate in 2009.

Operating costs during 2010 averaged $36.76 per barrel, an increase from $35.29 per barrel in 2009, reflecting more maintenance on mining equipment and two major turnarounds in 2010; 2009 included only one major turnaround.

Capital expenditures in 2010 rose to $506 million compared with $409 million in 2009, as spending began on large multi-year capital projects to replace or relocate four of Syncrude's five mining trains and to support Syncrude's tailings management plans.

Canadian Oil Sands declared a quarterly dividend amount of $0.20 per share for Shareholders of record on February 22, 2011, payable on February 28, 2011. This represents a decrease from 2010 distribution levels and reflects the need to reinvest a greater share of cash flow from operating activities in advance of a larger capital program at Syncrude.

Net debt at the end of 2010 was $1.2 billion, up from $1.0 billion at December 31, 2009. Raising net debt levels slightly enabled Canadian Oil Sands to achieve its objective of increasing tax pools to approximately $2 billion at the end of 2010. Canadian Oil Sands continues to maintain a strong financial position with net debt to total capitalization of 23 per cent.

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, oil sands development is again beginning to accelerate and with it a return to operating and capital cost pressures. The corollary, however, to improved economic conditions is higher demand for crude oil and an increase in crude oil prices, which helps mitigate the impact of inflationary cost pressures on our business.

The oil sands industry is committed to responsible development and continued improvement in environmental performance. The industry is communicating this commitment and performance to broader audiences in order to support a better understanding of the oil sands industry. Heightened scrutiny regarding the environmental impact of oil sands development has put pressure on the cost structure for oil sands operations, resulting in additional costs to comply with new regulation and expectations for performance. This pressure is expected to persist, with the oil sands continuing to be targeted as part of a larger campaign against the development of fossil fuels.

SELECTED ANNUAL INFORMATION

($ millions, except per Share and volume amounts)	2010	2009	2008
Cash from operating activities	$ 1,219	$ 547	$ 2,241
Per Share	2.52	1.13	4.66
Revenues, after crude oil purchases and transportation expense	3,180	2,615	4,169
Net income	886	432	1,523
Per Share, Basic	1.83	0.89	3.17
Per Share, Diluted	1.83	0.89	3.16
Total assets	7,016	6,953	6,933
Net debt [1]	1,171	1,041	979
Total other long-term liabilities [2]	353	493	334
Distributions per Share	1.85	0.90	3.75
Syncrude SCO production (millions of barrels)	107	102	106

[1] *Long-term debt less cash and cash equivalents. Non-GAAP measure.*

[2] *This balance includes employee future benefits and other liabilities as well as the Corporation's asset retirement obligation.*

	2010	2009	2008
Net realized SCO selling price (average $/bbl)	$ 80.53	$ 69.47	$ 106.91
West Texas Intermediate (average U.S.$/bbl)	79.61	62.09	99.75
Premium (Discount) price differential (average $/bbl)	(1.61)	(1.08)	1.94
Foreign exchange rates (average U.S.$/Cdn$)	0.97	0.88	0.94

Net Income per Barrel

($ per barrel) [1]	2010	2009	2008
Revenues after crude oil purchases and transportation expense [2]	$ 81.21	$ 69.47	$ 107.47
Operating costs	(36.76)	(35.29)	(35.26)
Crown royalties	(7.80)	(6.06)	(15.44)
	$ 36.65	$ 28.12	$ 56.77
Non-production costs	(2.68)	(3.75)	(2.00)
Administration and insurance	(0.85)	(0.87)	(0.61)
Interest, net	(2.33)	(2.45)	(1.75)
Depreciation, depletion and accretion	(10.42)	(15.16)	(11.46)
Goodwill impairment	-	(1.38)	-
Foreign exchange gain (loss)	1.54	4.28	(4.09)
Earnings before taxes	21.91	8.79	36.86
Future income tax recovery and other	0.73	2.67	2.39
Net income per barrel	$ 22.64	$ 11.46	$ 39.25
Sales volumes (MMbbls) [3]	39.2	37.6	38.8

[1] Unless otherwise specified, net income and other per barrel measures in this MD&A have been derived by dividing the relevant revenue or cost item by the sales volumes in the period.

[2] Revenues includes revenue from the sale of purchased crude oil, sulphur revenue, and proceeds from insurance claims.

[3] Sales volumes, after purchased crude oil volumes.

Cash from operating activities increased in 2010 relative to 2009, reflecting higher revenues partially offset by higher operating expenses and Crown royalties in 2010. Cash from operating activities decreased from 2008 to 2009 primarily as a result of decreased revenues partially offset by decreases in operating expenses and Crown Royalties.

Revenues increased in 2010 relative to 2009 on the strength of a higher realized selling price and higher sales volumes. The realized selling price increased as the U.S. dollar WTI price for crude oil rebounded through 2010 from the low levels in 2009. Sales volumes increased from 2009 to 2010 due to improved reliability in 2010 combined with an extended shutdown of Coker 8-3 in 2009 to accommodate modifications. Conversely, revenues decreased from 2008 to 2009 due to a lower realized selling price and lower sales volumes, the latter primarily due to reliability issues and the Coker 8-3 shutdown.

Operating costs in 2010 totalled $1,439 million, or $36.76 per barrel compared with $1,328 million, or $35.29 per barrel, in 2009. The increase in operating costs primarily reflects higher production volumes, higher maintenance costs associated with mining equipment, and a larger scope of turnaround activity in 2010 versus 2009. Operating costs in 2008 totalled $1,368 million, or $35.26 per barrel. The decrease in costs from 2008 to 2009 primarily reflects lower production volumes and lower energy costs from the decline in natural gas prices, partially offset by higher maintenance. Additional information regarding operating costs for 2010 relative to 2009 is provided in the "Operating Costs" section of this MD&A.

In 2010, Canadian Oil Sands recorded $306 million in Crown royalties compared with $228 million in 2009 and $599 million in 2008. The increase in 2010 relative to 2009 was due to higher deemed bitumen revenues partially offset by higher operating expenses and capital expenditures. Crown royalties in 2010 also reflect a transition royalty expense, which did not apply until January 1, 2010. The decrease in Crown royalties from 2008 to 2009 was primarily due to lower deemed bitumen revenues, as commodity prices fell. Further information on Crown royalties is provided in the "Crown Royalties" section of this MD&A.

Non-cash working capital changes were as follows:

($ millions)	2010	2009	2008
Cash from (used in) changes in:			
Accounts receivable	$ (25)	$ (170)	$ 195
Inventories	4	(40)	9
Prepaid expenses	1	(2)	1
Accounts payable and accrued liabilities	121	-	(5)
Less: Current portion of ARO	(37)	-	-
Less: A/P and A/R reclassed to investing and other	(1)	5	2
Change in operating non-cash working capital	$ 63	$ (207)	$ 202

Non-cash working capital requirements were lower at December 31, 2010 relative to the prior year-end primarily as a result of an increase in Crown Royalties payable. Non-cash working capital requirements were higher at December 31, 2009 relative to December 31, 2008 primarily

as a result of an increase in accounts receivable, as December 2009 sales volumes and realized prices were higher than in December 2008.

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

Net income totalled $886 million, or $1.83 per Share, in 2010 compared with $432 million, or $0.89 per Share, in 2009 and $1,523 million, or $3.17 per Share, in 2008. Changes in revenues, operating expenses and Crown royalties significantly impacted net income, as did foreign exchange ("FX") gains and losses, depreciation, depletion and accretion ("DD&A"), and the $148 million after-tax asset impairment and goodwill charges on the Arctic natural gas assets in 2009.

Foreign exchange ("FX") gains and losses during the years 2008 to 2010 were primarily due to foreign exchange rate fluctuations on the revaluation of U.S. dollar denominated debt into Canadian dollars. Those fluctuations resulted in an FX gain on long-term debt of $58 million in 2010, an FX gain of $200 million in 2009 and an FX loss of $204 million in 2008.

DD&A expense in 2010 totalled $380 million compared with $570 million for 2009 and $444 million for 2008. The decrease from 2009 to 2010 reflects impairment charges recorded in 2009 on the Arctic natural gas assets and changes made in 2010 to the estimation methodology used to allocate asset costs over their estimated useful lives. The 2009 impairment charges are largely responsible for the increase in DD&A expense from 2008 to 2009. Further discussion of the 2009 impairment charges and the 2010 change in estimation methodology can be found in the "Depreciation, Depletion and Accretion Expense" and "Impairment of Arctic Assets" sections of this MD&A.

Net debt, comprised of long-term debt less cash and cash equivalents, increased to $1,171 million at December 31, 2010 from $1,041 million at December 31, 2009. The increase is a result of capital expenditures, reclamation trust fund contributions, and Unitholder distributions collectively exceeding cash from operating activities. The increase was partially offset by a stronger Canadian dollar at December 31, 2010 relative to the prior year-end, which reduced the Canadian dollar equivalent value of the U.S. dollar denominated long-term debt. Net debt increased to $1,041 million at December 31, 2009 from $979 million at December 31, 2008 as a result of these same factors.

Capital expenditures in 2010 were $506 million compared with $409 million in 2009 and $281 million in 2008. The increase from 2009 to 2010 primarily reflects the commencement of spending on a multi-year project to replace or relocate four of Syncrude's five mining trains. The increase from 2008 to 2009 primarily reflects increased spending on the Syncrude Emissions Reduction project, increased equipment purchases to improve bitumen production, and modifications to the Coker 8-3 complex. Additional information regarding capital expenditures for 2010 relative to 2009 is provided in the "Capital Expenditures" section of this MD&A.

Canadian Oil Sands' Asset Retirement Obligation ("ARO") liability, which represents the present value of our share of the estimated environmental reclamation costs of Syncrude, totalled $323 million at December 31, 2010, $389 million at December 31, 2009 and $235 million at December 31, 2008. The net increase in Canadian Oil Sands' ARO from 2008 to 2010 reflects an overall acceleration in the estimated timing of some reclamation expenditures due to revised mine and tailings treatment plans combined with increased cost estimates. Additional information is provided in the "Asset Retirement Obligation" section of this MD&A.

Canadian Oil Sands paid distributions totalling $1.85 per Share in 2010 compared with $0.90 per Share in 2009 and $3.75 per Share in 2008. The Corporation's approach to distributions is discussed in the "Distributions" section of this MD&A.

SUMMARY OF QUARTERLY RESULTS

($ millions, except per Share and volume amounts)	2010					2009				
	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4	Annual
Revenues [1]	734	842	692	912	3,180	512	467	773	863	2,615
Net income (loss)	167	237	171	311	886	43	46	247	96	432
Per Share, Basic & Diluted	0.35	0.49	0.35	0.64	1.83	0.09	0.10	0.51	0.20	0.89
Cash from operating activities	309	358	330	222	1,219	50	(44)	213	328	547
Per Share [2]	0.64	0.74	0.68	0.46	2.52	0.10	(0.09)	0.44	0.68	1.13
Distributions	170	242	242	242	896	72	73	121	169	435
Per Share	0.35	0.50	0.50	0.50	1.85	0.15	0.15	0.25	0.35	0.90
Daily average sales volumes (bbls) [3]	99,286	118,569	96,477	114,739	107,280	102,825	75,553	114,544	119,287	103,129
Net realized selling price ($/bbl) [4]	82.06	78.07	77.94	83.97	80.53	55.32	67.92	73.31	78.67	69.47
Operating costs ($/bbl) [5]	39.59	31.18	39.99	37.35	36.76	38.78	50.23	27.80	30.18	35.29
Purchased natural gas price ($/GJ)	4.95	3.68	3.44	3.45	3.87	4.96	3.09	2.90	4.33	3.95
West Texas Intermediate (avg US$/bbl) [6]	78.88	78.05	76.21	85.24	79.61	43.31	59.79	68.24	76.13	62.09
Foreign exchange rates (US$/Cdn$):										
Average	0.96	0.97	0.96	0.99	0.97	0.80	0.86	0.91	0.95	0.88
Quarter-end	0.98	0.94	0.97	1.01	1.01	0.79	0.86	0.93	0.96	0.96

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

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

- fluctuations in U.S. dollar WTI oil prices have impacted the Corporation's revenues, Crown royalties expense, net income and cash from operating activities;
- planned and unplanned maintenance activities, including turnarounds, have impacted quarterly production volumes, sales revenues and operating costs;
- U.S. to Canadian dollar exchange rate fluctuations have resulted in foreign exchange gains and losses on the revaluation of U.S. dollar denominated debt and have impacted commodity pricing;
- depreciation, depletion and accretion expense was lower in 2010 as a result of changes to the estimation methodology made in the first quarter of 2010;
- net income was reduced in the fourth quarter of 2009 by $148 million due to an impairment charge and goodwill write-down on the Arctic natural gas assets; and
- tax rate reductions substantively enacted in the first quarter of 2009 resulted in additional future income tax recoveries of $63 million.

Quarterly variances in net income and cash from operating activities are caused mainly by fluctuations in crude oil prices, production and sales volumes, operating costs and natural gas prices. Net income is also impacted by unrealized foreign exchange gains and losses, impairment charges and future income tax amounts.

While the supply/demand balance for crude oil affects selling prices, the impact of this relationship is difficult to predict and quantify and has not displayed significant seasonality. Natural gas prices are typically higher in winter months as heating demand rises, but this seasonality is influenced by weather conditions and North American natural gas inventory levels.

Syncrude production levels may not display seasonal patterns or trends. While maintenance and turnaround activities are typically scheduled to avoid the winter months, the exact timing of unit shutdowns cannot be precisely scheduled, and unplanned outages may occur. Maintenance and turnaround activities impact both production volumes and operating costs. The costs associated with these activities have been expensed in the period they are incurred, which has led to significant increases in quarterly operating costs. Because a large proportion of operating costs are fixed, the effect on per barrel operating costs of these maintenance activities is amplified, as the facility is generally producing at reduced rates when maintenance work is occurring.

Canadian Oil Sands' unaudited fourth quarter 2010 results were discussed and analyzed in our MD&A released on January 27, 2011 and filed with the Corporation's January 27, 2011 press release, which is available on our website at www.cdnoilsands.com or at www.sedar.com.

REVIEW OF FINANCIAL RESULTS

Revenues, after Crude Oil Purchases and Transportation Expense

($ millions)	2010	2009	$ Change	% Change
Sales revenue [1]	$ 3,460	$ 2,779	$ 681	25
Crude oil purchases	(254)	(133)	(121)	91
Transportation expense	(26)	(31)	5	(16)
	$ 3,180	$ 2,615	$ 565	22
Sales volumes (mmbbls) [2]	39.2	37.6	1.6	4
Net realized SCO selling price (average $/bbl)	$ 80.53	$ 69.47	$ 11.06	16

[1] Sales revenue includes revenue from the sale of purchased crude oil, sulphur revenue, and proceeds from insurance claims.

[2] Sales volumes, net of purchased crude oil volumes.

The increase in sales revenue after crude oil purchases and transportation expense in 2010 relative to 2009 reflects both a higher realized selling price and higher sales volumes.

Our net realized SCO selling price averaged $80.53 per barrel in 2010, a 16 per cent increase from $69.47 per barrel realized in 2009. WTI averaged U.S. $80 per barrel in 2010 compared with U.S. $62 per barrel in 2009 while the Canadian dollar averaged $0.97 U.S./Cdn in 2010 compared with $0.88 U.S./Cdn in 2009. Canadian Oil Sands' SCO price is also affected by the premium or discount realized relative to Canadian dollar WTI (the "price differential"). In 2010, Canadian Oil Sands realized a weighted-average SCO discount of $1.61 per barrel compared with a discount of $1.08 per barrel in 2009. The price differential is dependent upon the supply and demand for SCO, and accordingly, can change quickly depending upon the short-term supply and demand dynamics in the market and pipeline availability for transporting crude oil. Industry pipeline volume restrictions in the fourth quarter of 2010 had a modest negative impact on the Corporation's weighted-average SCO price.

Canadian Oil Sands' sales volumes averaged 107,000 barrels per day in 2010 compared with 103,000 barrels per day for 2009. The higher 2010 sales volumes were primarily the result of improved reliability in 2010 combined with an extended shutdown of Coker 8-3 in 2009 to accommodate modifications.

The Corporation purchases crude oil from third parties, from time to time, to fulfill sales commitments with customers when there are shortfalls in Syncrude's production, and to facilitate certain transportation and tankage arrangements and operations. Sales revenue includes the sale of purchased crude oil while the cost of these purchases are included in crude oil purchases and transportation expense. Increased crude oil purchases in 2010 reflect additional activities to support unanticipated production shortfalls and incremental purchases associated with tankage arrangements, as well as higher crude oil prices compared with 2009.

Operating Costs

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

	2010		2009	
	$/bbl Bitumen	$/bbl SCO	$/bbl Bitumen	$/bbl SCO
Bitumen production	$ 20.63	$ 24.34	$ 19.32	$ 22.81
Internal fuel allocation [2]	2.49	2.94	2.32	2.74
Total produced bitumen costs	$ 23.12	$ 27.28	$ 21.64	$ 25.55
Upgrading costs [1]		13.34		12.53
Less: Internal fuel allocation to bitumen [2]		(2.94)		(2.74)
Bitumen purchases		-		0.32
Total Syncrude operating costs		$ 37.68		$ 35.66
Canadian Oil Sands' adjustments [3]		(0.92)		(0.37)
Total operating costs		$ 36.76		$ 35.29
(thousands of barrels per day)	Bitumen	SCO	Bitumen	SCO
Syncrude production volumes [4]	346	293	330	280

[1] *Upgrading costs include the production and ongoing maintenance costs associated with processing and upgrading of bitumen to SCO. It also includes the costs of major upgrading equipment turnarounds and catalyst replacement, all of which are expensed as incurred.*
[2] *Natural gas prices averaged $3.87 per GJ and $3.95 per GJ in 2010 and 2009, respectively.*
[3] *Canadian Oil Sands' adjustments mainly pertain to actual reclamation costs, Syncrude-related pension costs, as well as the inventory impact of moving from production to sales as Syncrude reports per barrel costs based on production volumes and the Corporation reports based on sales volumes.*
[4] *Syncrude production volumes include the impact of processed purchased bitumen volumes.*

($/bbl of SCO)	2010	2009	$ Change	% Change
Production costs	$ 32.49	$ 31.39	$ 1.10	3
Purchased energy	4.27	3.90	0.37	10
Total operating costs	$ 36.76	$ 35.29	$ 1.47	4

(GJs/bbl of SCO)	2010	2009	Change	% Change
Purchased energy consumption	1.10	0.99	0.11	12

Operating costs were $1,439 million in 2010, averaging $36.76 per barrel, an increase from $1,328 million, or $35.29 per barrel, in 2009. The increase was primarily due to:

- higher maintenance costs in 2010, primarily due to decreased reliability with mining equipment;
- higher 2010 turnaround costs reflecting major turnarounds on both Coker 8-1 and the LC Finer while 2009 costs reflected only one major turnaround on Coker 8-3 (the modification costs on Coker 8-3 were capitalized);
- additional expenses in 2010 to support a mine train relocation and a tailings pond dam; and
- increased diesel fuel purchases to supplement lower diesel production as a result of the LC Finer turnaround.

The cost increases were partially offset by an absence of bitumen purchases in 2010 versus 2009 when bitumen was purchased to augment production, and a smaller increase in the value of Syncrude's long-term incentive plans in 2010 compared with 2009. A portion of Syncrude's long-term incentive plans is based on the market return performance of several Syncrude owners' shares, the market performance of which was weaker in 2010 than in 2009.

Non-Production Costs

Non-production costs consist primarily of development expenditures related to capital programs, such as pre-feasibility engineering, technical and support services, research and development, evaluation drilling and stakeholder consultation expenditures. Non-production costs can vary on a periodic basis depending on the number of projects underway and the development stage of the projects. Non-production costs totalled $105 million in 2010, a decrease from $141 million in 2009, primarily because project expenditures in 2010 for mine train replacement/relocation and tailings initiatives were capitalized as property, plant and equipment while in 2009 they were expensed as non-production costs due to the early stage of project development.

Crown Royalties

Crown royalties increased to $306 million, or $7.80 per barrel, in 2010 from $228 million, or $6.06 per barrel, in 2009. The increase reflects higher deemed bitumen revenues partially offset by

higher operating expenses and capital expenditures. Crown royalties in 2010 also reflect a transition royalty expense, which did not apply until January 1, 2010.

Beginning in 2009, Syncrude transitioned to paying Crown royalties based on bitumen production rather than on the production of SCO. From 2009 through 2015, Syncrude's Crown royalties are determined pursuant to the Syncrude Royalty Amending Agreement and the Syncrude Bitumen Royalty Option Agreement.

Under the Syncrude Royalty Amending Agreement, the Syncrude owners pay the greater of 25 per cent of net deemed bitumen revenues, or one per cent of gross deemed bitumen revenues, plus a transition royalty of up to $975 million ($358 million net to the Corporation) for the period January 1, 2010 to December 31, 2015. The transition royalty of $975 million is reduced proportionally if bitumen production is less than 345,000 barrels per day over the period. The $975 million ($358 million net to the Corporation) is scheduled over six annual installments as follows:

($ millions)

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

The Syncrude Royalty Amending Agreement requires that bitumen be valued by a formula that references the value of bitumen based on a Canadian heavy oil price adjusted for reasonable quality, transportation and handling deductions (including diluent costs) to reflect the quality and location differences between Syncrude's bitumen and the reference price of bitumen. The Alberta government, Syncrude, and the Syncrude owners are in discussions to determine the appropriate adjustments for quality, transportation and handling. 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 Syncrude Canada and the Syncrude owners' interpretation of the Syncrude Royalty Amending 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 estimated to be approximately $30 million less than the amount calculated under the Syncrude BVM. The Syncrude owners 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.

Under the Syncrude Bitumen Royalty Option Agreement, costs related to capital expenditures that were deducted in computing Crown royalties on SCO in prior years and are no longer associated with the royalty base, are recaptured by the Crown. These recapture amounts result in approximately $30 million of additional Crown royalties per year, net to the Corporation, over the 25-year period from 2009 to 2033.

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

Copies of the Syncrude Royalty Amending Agreement and the Syncrude Bitumen Royalty Option Agreement are available on our website at www.cdnoilsands.com under Regulatory Filings or at www.sedar.com.

Interest Expense, Net

($ millions)	2010	2009	$ Change	% Change
Interest expense on long-term debt	$ 92	$ 94	$ (2)	(2)
Interest income and other	(1)	(1)	-	-
Interest expense, net	$ 91	$ 93	$ (2)	(2)

Interest expense in 2010 was largely unchanged from 2009, as debt levels remained relatively constant.

Depreciation, Depletion and Accretion Expense

($ millions)	2010	2009	$ Change	% Change
Depreciation and depletion expense	$ 383	$ 423	$ (40)	(9)
Impairment of Arctic assets	-	130	(130)	100
Accretion expense	25	17	8	47
	$ 408	$ 570	$ (162)	(28)

Depreciation, depletion and accretion expense decreased to $408 million in 2010 from $570 million in 2009 due mainly to a $130 million impairment charge on the Arctic natural gas assets recorded in 2009, and changes made in 2010 to the estimation methodology used to allocate asset costs over their estimated useful lives.

Oil sands assets are depreciated and depleted over their estimated remaining lives, which are reviewed by management on a regular basis. During the first quarter of 2010, management determined that the usage of certain tangible equipment would be most accurately represented by a straight-line calculation on an ongoing basis. As such, depreciation and depletion of the oil sands assets is now estimated based on a blend of both a unit-of-production and straight-line basis. Previously, depreciation and depletion was estimated based on a unit-of-production basis only. The effect of the change in estimate for the year ended December 31, 2010 is that approximately $60 million less depreciation and depletion expense was recorded using the new estimated remaining lives than would have been recorded using the previous estimates. Beyond 2010, it is not practical to calculate the effect of this change in estimate due to the long-life nature of the assets and the amount of estimated future development costs. As a result of incorporating a straight-line estimation methodology, depreciation and depletion expense in the future is expected to be more stable from period to period and will not materially fluctuate as a result of production changes.

Asset Retirement Obligation

Canadian Oil Sands and each of the other Syncrude owners are liable for their share of ongoing environmental obligations related to the ultimate reclamation of the Syncrude properties on abandonment. The reclamation process begins after mining areas and tailings ponds have been returned to a trafficable land form, at or near grade, and includes the costs of:

- landscape planning and design;
- handling and placement of soil and other reclamation materials;
- re-vegetation and re-forestation; and
- monitoring.

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

The Corporation estimates reclamation expenditures will be made over approximately the next 70 years and has applied an average credit-adjusted risk-free discount rate of six per cent (2009-six per cent) in deriving the asset retirement obligation.

Canadian Oil Sands' asset retirement obligation, which represents the present value of its share of the estimated reclamation costs, decreased to $323 million at December 31, 2010 from $389 million at December 31, 2009. The decrease reflects a change in the estimated timing of some reclamation expenditures due to revised mine and tailings treatment plans, as well as $48 million of reclamation spending during 2010. The total undiscounted estimated cash flows required to

settle the Corporation's share of Syncrude's obligation increased to $1,194 million at December 31, 2010 (December 31, 2009 - $903 million), reflecting the revised mine and tailings treatment plans and the recognition of costs to decommission Syncrude's upgrading facilities.

The $37 million current portion of the asset retirement obligation is included in accounts payable and accrued liabilities, while the $286 million non-current portion is separately presented as an asset retirement obligation on the Consolidated Balance Sheet.

The reclamation expenditures will be funded from Canadian Oil Sands' cash from operating activities and a reclamation trust. In addition to annual funding for reclamation expenditures, Canadian Oil Sands deposits $0.1322 per barrel of production attributable to its working interest to a reclamation trust established for the purpose of funding its share of environmental and reclamation obligations. As at December 31, 2010, the balance of the reclamation trust was $53 million (December 31, 2009 - $48 million). Additionally, Canadian Oil Sands has posted letters of credit with the Province of Alberta in the amount of $75 million (December 31, 2009 - $70 million) to secure its pro rata share of the reclamation obligations of the Syncrude owners.

Pension and Other Post-Employment Benefit Plans

Syncrude Canada has defined benefit and defined contribution pension plans and a defined benefit other post-employment benefits ("OPEB") plan, which cover most of its employees. OPEB includes certain health care and life insurance benefits for retirees, their beneficiaries and covered dependents. The defined benefit OPEB plan is not funded. Canadian Oil Sands accrues its obligations as a joint venture owner in respect of Syncrude Canada's pension and OPEB plans and the related costs, net of plan assets.

At December 31, 2010, the accrued benefit liability fell to $85 million from $115 million at the end of the prior year primarily because 2010 funding exceeded expenses. An April 2010 actuarial valuation on Syncrude's pension plans resulted in increased 2010 funding requirements that totaled $74 million net to Canadian Oil Sands. Pension expense, which is recorded as part of operating expenses on the Consolidated Statements of Income and Comprehensive Income, was $47 million in 2010 ($44 million - 2009).

The Corporation's share of the estimated unfunded portion of the pension and OPEB plans, however, rose to $327 million at the end of 2010 from $281 million at the end of 2009. A decrease in the interest rate used to discount future pension costs was partially offset by the increased 2010 funding and higher than estimated returns on the pension plan assets. As Canadian Oil Sands applies the "corridor method" of pension accounting, $242 million of the

unfunded balance has not been recognized in the financial statements and is being deferred and amortized over the expected average remaining service life of active employees.

Foreign Exchange (Gains) Losses

($ millions)	2010	2009
Foreign exchange (gain) loss-long term debt	$ (58)	$ (200)
Foreign exchange (gain) loss-other	(2)	39
Total foreign exchange (gain) loss	$ (60)	$ (161)

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

The FX gains on long-term debt in 2010 were the result of a strengthening in the value of the Canadian dollar relative to the U.S. dollar from $0.96 U.S./Cdn at December 31, 2009 to $1.01 U.S./Cdn at December 31, 2010. In 2009, the Canadian dollar strengthened from $0.82 U.S./Cdn at December 31, 2008 to $0.96 U.S./Cdn at December 31, 2009. The Corporation had U.S. $1,124 million in U.S. dollar debt outstanding at both December 31, 2010 and 2009.

Other FX gains and losses were primarily the result of the settlement of U.S. dollar denominated receivables and the revaluation of U.S. dollar cash balances. Canadian Oil Sands reported a foreign exchange gain of $2 million on these other items in 2010 versus a loss of $39 million in 2009. The 2009 amount included a $19 million foreign exchange loss on U.S. dollar cash held by Canadian Oil Sands from proceeds of the U.S. $500 million financing in May 2009 subsequently used to retire U.S. $250 million of debt in August 2009.

Future Income Tax and Other

Canadian Oil Sands' future income taxes on its Consolidated Balance Sheet represent the net difference between tax values and accounting values, referred to as temporary differences, tax-effected at substantively enacted tax rates expected to apply when the differences reverse. In 2010, Canadian Oil Sands recorded future income tax recoveries of $29 million on the reversal of these temporary differences. In 2009, Canadian Oil Sands recorded future income tax recoveries of $101 million, $38 million on the reversal of temporary differences and $63 million on the substantive enactment of tax rate reductions.

Impairment of Arctic Assets

During 2009, the Corporation assessed its Arctic natural gas assets and related goodwill for impairment. Along with recent technological innovations that have increased development of

natural gas shale resources, there continue to be delays in Arctic developments. The Corporation has a "carried interest" in its Arctic resource which reduces risk; however, resource development is dependent on uncertain operator approvals.

As a result of these uncertainties, the Corporation extended its assumed timing for development of the Arctic assets. Based on a net present value analysis which assumes a deferred project start date, Canadian Oil Sands recorded additional depreciation and depletion of $130 million ($96 million after tax) and a goodwill impairment of $52 million in 2009. The net book value for the Arctic natural gas assets at December 31, 2009 and December 31, 2010 was $35 million.

CAPITAL EXPENDITURES

Capital expenditures for 2010 totalled $506 million, an increase from $409 million in 2009. The Syncrude Emissions Reduction ("SER") project accounted for $113 million and $115 million of the capital spent in 2010 and 2009, respectively. Mine train replacements/relocations, which involve reconstructing or moving crushers, surge facilities and slurry preparation equipment, primarily to support tailings management requirements, accounted for $88 million and $23 million of the capital spent in 2010 and 2009, respectively. The remaining expenditures related to other investment activities, including construction and relocation of tailings facilities, pipe replacements and other infrastructure projects. Capital expenditures on a per barrel basis were approximately $12.92 and $10.86 for 2010 and 2009, respectively. Capital expenditures on a per barrel basis are affected by the Corporation's sales volumes, which were higher in 2010 than in 2009.

Syncrude is undertaking the SER project to retrofit technology into the operation of Syncrude's original two cokers to reduce total sulphur dioxide and other emissions. After completion of the $1.6 billion project ($588 million net to the Corporation), stack emissions of sulphur compounds are anticipated to be about 60 per cent lower than current approved license levels. The Corporation's share of the SER project expenditures incurred to date is approximately $409 million, with the remaining costs expected to be incurred during 2011.

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

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The following table outlines the significant contractual obligations and commitments that were assumed in the normal course of operations and were known as of February 23, 2011. These obligations and commitments represent future cash payments that the Corporation is required to

make under existing contractual agreements that it has entered into either directly, or as a 36.74 per cent owner in Syncrude:

($ millions)	Total	< 1 year	1 - 3 years	4 - 5 years	After 5 years
Long-term debt [1]	1,813	82	525	128	1,078
Asset retirement obligations [2]	1,194	37	63	37	1,057
Pension plan solvency deficiency payments [3]	312	48	127	36	101
Pipeline commitments [4]	445	37	57	37	314
Capital expenditure commitments [5]	124	124	-	-	-
Management services agreement [6]	108	17	51	34	6
Other obligations [7]	300	172	68	17	43
	4,296	517	891	289	2,599

[1] Actual payments differ from the carrying value as the amounts are stated at amortized cost plus interest payment commitments on the long-term debt.
[2] Reflects our 36.74 percent share of the undiscounted estimated cash flows required to settle Syncrude's environmental obligations upon reclamation of the Syncrude properties.
[3] We are responsible for funding our 36.74 per cent share of Syncrude Canada's registered pension plan solvency deficiency, which was confirmed in the December 31, 2009 actuarial valuation completed in 2010.
[4] Reflects our 36.74 per cent share of the AOSPL pipeline commitment as a Syncrude owner, and various other Canadian Oil Sands pipeline commitments for transportation access beyond Edmonton.
[5] Capital expenditure commitments are primarily comprised of our 36.74 per cent share of Syncrude's Emissions Reduction project.
[6] Reflects our 36.74 per cent share of Syncrude Canada's annual fixed service fees under the agreement.
[7] These obligations include, but are not limited to, our 36.74 per cent share of the minimum payments required under Syncrude's commitments for natural gas purchases, annual disposal fees for the flue gas desulphurization unit and amounts due under Syncrude Canada's employee retention program.

During 2010, the following significant changes occurred in the Corporation's commitments:

- an actuarial valuation of the pension obligation as at December 31, 2009 was completed, resulting in additional funding requirements over the next 14 years of approximately $265 million, with the majority of the funding requirements due within the next five years; and
- a $291 million increase in the undiscounted estimate of the Corporation's share of Syncrude's asset retirement costs to be incurred over the next 70 years; additional information is provided in the "Asset Retirement Obligation" section of this MD&A.

DISTRIBUTIONS

($ millions)		2010		2009
Cash from operating activities	$	1,219	$	547
Net income	$	886	$	432
Unitholder distributions	$	896	$	435
Excess of cash from operating activities over Unitholder distributions	$	323	$	112
Shortfall of net income over Unitholder distributions	$	(10)	$	(3)

In 2010, cash from operating activities exceeded Unitholder distributions by $323 million. Cash from operating activities, along with opening cash balances and drawdowns on the operating

credit facility were sufficient to fund the Corporation's capital expenditures, contributions to the reclamation trust fund, and Unitholder distributions.

Unitholder distributions in 2010 exceeded net income by $10 million, reflecting the impact of non-cash expenses included in the calculation of net income such as depreciation, depletion and accretion. These non-cash items do not affect the Corporation's cash from operating activities or ability to pay dividends over the near term.

On January 27, 2011, the Corporation declared a quarterly dividend of $0.20 per Share in respect of the first quarter of 2011 for a total distribution of approximately $97 million. The dividend will be paid on February 28, 2011 to Shareholders of record on February 22, 2011.

Following the Corporate Conversion on December 31, 2010, Canadian Oil Sands intends to continue with its approach of providing a variable payout to investors. Dividend payments will continue to be determined on a quarterly basis 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.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31 ($ millions)		2010		2009
Long-term debt	$	1,251	$	1,163
Cash and cash equivalents		(80)		(122)
Net debt	$	1,171	$	1,041
Shareholders' equity	$	3,958	$	3,969
Total capitalization [1]	$	5,129	$	5,010
Net debt to total capitalization (%)		23		21

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

Net debt increased to $1.2 billion at December 31, 2010 from $1.0 billion at December 31, 2009. Capital expenditures, reclamation trust fund contributions, and Unitholder distributions exceeded cash from operating activities in 2010, resulting in the increased leverage. This was partially

offset by a stronger Canadian dollar at December 31, 2010 relative to the prior year-end, which reduced the Canadian dollar equivalent value of the U.S. dollar denominated long-term debt.

The Corporation realized its objective of increasing tax pools to approximately $2 billion by the end of 2010 and, as anticipated, raised debt levels slightly in the process.

Shareholders' equity at December 31, 2010 was similar to December 31, 2009, as Unitholder distributions approximated net income in 2010.

In March 2010, the Corporation's $70 million line of credit was increased to $100 million and the term on the Corporation's $40 million bilateral credit facility was extended to April 21, 2011.

Over the next few years, Syncrude will be executing several major projects resulting in large non-discretionary capital expenditures. Canadian Oil Sands intends to fund these projects primarily from cash from operating activities. In order to mitigate the risk of oil price volatility on cash flows, at this time we are inclined to maintain current net debt levels of about $1 billion.

Debt covenants restrict Canadian Oil Sands' ability to sell all or substantially all of its assets or change the nature of its business, and limit total debt-to-total capitalization to 55 per cent. With a net debt-to-total capitalization of approximately 23 per cent at December 31, 2010, a significant increase in debt or decrease in equity would be required before covenants restrict the Corporation's financial flexibility.

SHAREHOLDERS' CAPITAL AND TRADING ACTIVITY

Canadian Oil Sands issues options, performance units ("PSUs"), and restricted share units ("RSUs") as part of its long-term incentive plan for employees.

Options represent the right of the optionholder to purchase a Share at the exercise price determined at the date of grant. For options granted prior to 2011, exercise prices are reduced by dividends over a threshold amount. The options vest by one-third following the date of grant in each of the first three years and expire seven years from the date of grant. At December 31, 2010, there were approximately 1.6 million options outstanding with an average exercise price of $27.37 per option. On February 1, 2011, another 317,512 options were granted with a fair value of approximately $2 million. The approximate 2.0 million options outstanding at February 23, 2011 represent less than one per cent of total Shares outstanding.

PSUs are awarded and settled in cash, in Shares purchased in the secondary market, or in Shares issued from treasury, at the end of a three-year period. The settlement value is based on the Corporation's Share price at the three-year vesting date if the total Shareholder return generated by the Corporation relative to a comparator group, comprised of other industry peers and the S&P/TSX oil and gas E&P index, meets certain thresholds over the three-year period. At December 31, 2010, there were approximately 0.2 million PSUs outstanding with an accrued value of approximately $1 million. On February 1, 2011 another 76,644 PSUs were granted with a fair value of approximately $2 million. The approximately 0.3 million PSUs outstanding at February 23, 2011 represents less than one per cent of the total Shares outstanding on a Share-equivalent-basis.

RSUs are awarded and settled in cash, in Shares purchased in the secondary market or in Shares issued from treasury at the end of a three-year period. The settlement value is based on the Corporation's Share price at the three-year vesting date. At December 31, 2010, there were no RSUs outstanding. On February 1, 2011, 7,452 RSUs were granted.

More detail on the Corporation's options and PSUs can be found in Note 17(a) to the audited Consolidated Financial Statements, and more detail on the options, PSUs and RSUs can be found in the Corporation's Management Proxy Circular dated March 15, 2010, which is available on our website at www.cdnoilsands.com or at www.sedar.com.

Following the Corporate Conversion effective December 31, 2010, the Corporation had 484 million Shares outstanding, which began trading on January 6, 2011 on the Toronto Stock Exchange under the symbol COS. Prior to this, the Trust had 484 million Units outstanding which traded on the Toronto Stock Exchange under the symbol COS.UN. The Units had a closing price of $26.45 per Unit on December 31, 2010, which translates to a market capitalization for Canadian Oil Sands of approximately $13 billion. A table summarizing the Shares issued in 2010 is included in Note 16(a) to the audited Consolidated Financial Statements.

Canadian Oil Sands Trust - Trading Activity

	Total 2010	Q4 2010	Q3 2010	Q2 2010	Q1 2010
Unit price					
High	$ 33.05	$ 28.65	$ 29.66	$ 33.05	$ 30.98
Low	$ 24.24	$ 24.30	$ 24.24	$ 25.48	$ 27.35
Close	$ 26.45	$ 26.45	$ 25.46	$ 26.99	$ 30.45
Volume of Trust Units traded (millions)	412.7	113.4	123.1	99.9	76.3
Weighted average Trust Units outstanding (millions)	484.4	484.4	484.4	484.4	484.4

Premium Dividend, Dividend Re-Investment and Optional Share Purchase Plan

On December 31, 2010, upon conversion from an income trust structure to a corporate structure, the Trust's Premium Distribution, Distribution Reinvestment and Optional Unit Purchase Plan ("Trust DRIP") was replaced by the Corporation's Premium Dividend, Dividend Reinvestment and Optional Share Purchase Plan ("Corporate DRIP") with substantially the same terms and conditions as the Trust DRIP. The Corporate DRIP allows eligible Shareholders to direct their dividends to the purchase of additional Shares or receive a premium dividend amount. The Corporate DRIP has been suspended but could be reinstated in the future to help preserve balance sheet equity.

CRITICAL ACCOUNTING ESTIMATES

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

a) Canadian Oil Sands records its asset retirement obligation and corresponding asset based on the estimated discounted fair value of its share of Syncrude's future expenditures required for reclamation of each of Syncrude's mine sites that have been disturbed and for the decommissioning of Syncrude's utilities plants, bitumen extraction plants, and upgrading complex. Syncrude is required to reclaim disturbed areas to a sustainable landscape with productivity that is equal or greater than existed prior to development. In determining the fair value, Canadian Oil Sands must estimate the amount of the future cash payments, the timing of when those payments will be required, and then apply an appropriate credit-adjusted risk-free rate. Given the long reserve life of Syncrude's leases, the reclamation expenditures will be made over approximately the next 70 years, and therefore it is difficult to estimate the timing and amount of the reclamation payments that will be required as they occur far into the future.

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

b) Canadian Oil Sands accrues its obligations for Syncrude Canada's post-employment benefits utilizing actuarial and other assumptions to estimate the projected benefit obligation, the

return on plan assets and the expense accrual related to the current period. The basic assumptions utilized are outlined in Note 10(a) to the audited Consolidated Financial Statements. A 0.25 per cent change in the interest rate used to discount the projected benefit obligation for Syncrude Canada's defined benefit pension plan would result in an approximate increase/decrease of $25 million in Canadian Oil Sands' share of the employee future benefit liability.

In addition, actuarial gains and losses are deferred and amortized into income over the expected average remaining service lives of employees, which is estimated to be 12 years. Actual costs related to Syncrude Canada's employee benefit plans could vary greatly from the amounts accrued for the pension obligation and the plan assets. If Canadian Oil Sands had recognized the actuarial losses immediately in income, pension and other post-employment expense would have increased from $47 million to $122 million in 2010. In addition, the accrued benefit liability on the Consolidated Balance Sheet would have increased from $85 million to $327 million. Canadian Oil Sands does not have a pension plan for its own employees. Therefore, all of the employee future benefit liabilities and expenditures relate to its working interest in Syncrude Canada's pension and post-employment benefit plan obligations.

c) Canadian Oil Sands calculates depreciation expense for certain tangible oil sands assets on a straight-line basis. As such, Canadian Oil Sands must estimate the remaining useful lives of these assets. While these useful life estimates are reviewed on a regular basis and depreciation calculations are revised accordingly, actual lives may differ from the estimates. As such, assets may continue in use after being fully depreciated, or may be retired or disposed of before being fully depreciated, which could result in a loss.

d) Canadian Oil Sands must estimate the reserves it expects to recover in the future and the related net revenues expected to be generated from producing those reserves. Our reserves and future net revenues are evaluated and reported in a reserve report prepared by independent petroleum reserve evaluators who determine these evaluations using various factors and assumptions, such as: forecasts of mining and extraction recovery and upgrading yield based on geological and engineering data, projected future rates of production, projected operating costs, royalties and taxes, projected crude oil prices and oil price differentials and timing and amounts of future capital expenditures and other development costs, all of which are estimates. We believe that the factors and assumptions used in the estimates are reasonable based on the information available at the time that the estimates are prepared. Estimates of reserves and future net revenues are critical to asset impairment

tests. In addition, for certain intangible assets, which are depleted on a unit-of-production basis, reserves are used as a component of the depletion calculations to allocate capital costs over their estimated useful lives. The reserve report is reviewed by Canadian Oil Sands' management, the Reserves, Marketing Operations and Environmental, Health and Safety Committee and the Board of Directors.

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

NEW ACCOUNTING PRONOUNCEMENTS

There were no new accounting pronouncements issued by the Canadian Institute of Chartered Accountants ("CICA") during 2010 that are expected to have a material impact on the Corporation.

CHANGES IN ACCOUNTING POLICIES

There were no new accounting policies adopted, nor any changes to accounting policies, in 2010.

International Financial Reporting Standards ("IFRS")

IFRS will become Canadian GAAP for publicly accountable enterprises in Canada in 2011. The Corporation will be required to adopt IFRS for interim and annual financial statements beginning on January 1, 2011 including comparative financial statements for 2010.

As part of its IFRS conversion project, the Corporation has analyzed IFRS accounting standards and accounting policy alternatives and has prepared draft IFRS financial statements and disclosures.

a) IFRS 1 "First-Time Adoption of International Financial Reporting Standards"

IFRS 1 provides entities adopting IFRS for the first time with a number of optional exemptions and mandatory exceptions, in certain areas, to the general requirement for full retrospective application of IFRS. The Corporation has analyzed the choices available under IFRS 1 and has decided to utilize exemptions relating to employee future benefits, interest capitalization, asset retirement obligations, business combinations, and leases. Similarly, the Corporation has made decisions to reject exemptions relating to the fair value measurement of property, plant and equipment and long-term debt.

i) Employee future benefits

Utilizing the employee future benefits exemption will result in the recognition of approximately $125 million of previously unrecognized actuarial losses (net of approximately $40 million in future income taxes) through January 1, 2010 retained earnings with a corresponding increase to the employee future benefits liability. The Corporation's accounting policy under Canadian GAAP is to recognize these losses over the expected average remaining service life of active employees.

ii) Interest capitalization

IFRS requires that interest costs relating to assets that take a substantial period of time to construct be capitalized and subsequently expensed as depreciation over the assets' expected useful lives. Currently, under Canadian GAAP, the Corporation expenses all interest costs. By utilizing the interest capitalization exemption, the Corporation will be exempted from retrospectively applying this accounting change and therefore no interest will be capitalized for periods prior to January 1, 2010. However, as described in the "Significant Accounting Policy Changes Post Conversion" section below, interest on certain capital projects will be capitalized beginning January 1, 2010.

iii) Asset retirement obligation

The Corporation will utilize the asset retirement obligation exemption which provides a method for adjusting the asset retirement obligation and the related property, plant and equipment asset to obtain a January 1, 2010 value. The combined effect of utilitizing this exemption and the related accounting policy change contemplated going forward is discussed in the "Significant Accounting Policy Changes Post Conversion" section below.

The other IFRS 1 exemptions applied to the Corporation will not materially impact its financial position at January 1, 2010.

b) Significant Accounting Policy Changes Post IFRS Conversion

The amounts the Corporation reports under IFRS may differ significantly from the amounts the Corporation reports under Canadian GAAP for asset retirement obligations, future income taxes, employee future benefits, interest capitalization, and impairment of property, plant and equipment.

i) Asset retirement obligation

The Corporation has decided to discount the estimated fair value of its asset retirement obligation and the related property, plant and equipment asset using a risk-free interest rate. Under Canadian GAAP, the Corporation uses a credit-adjusted interest rate. The combined effect of utilizing the IFRS 1 exemption discussed above and changing the discount rate will increase the January 1, 2010 asset retirement obligation and the related property, plant and equipment asset by approximately $160 million and $20 million, respectively, with an offsetting $105 million charge to January 1, 2010 retained earnings net of a $35 million future income tax recovery. 2010 depreciation and accretion will not change significantly as a result of this adjustment.

In addition, IFRS requires that the asset retirement obligation be re-measured each reporting period for changes in the discount rate with a corresponding adjustment to the cost of the related property, plant and equipment asset. Under Canadian GAAP, changes in discount rates do not result in a re-measurement. As a result, the asset retirement obligation will increase to approximately $500 million at December 31, 2010 under IFRS relative to the $323 million recorded under Canadian GAAP at the same date.

ii) Future income taxes

IFRS requires that, prior to the Corporate Conversion, the Trust measure future income taxes using the tax rate applicable to earnings not distributed to Unitholders whereas, under Canadian GAAP, future income taxes are measured using the tax rate applicable to distributed earnings. This difference will result in an approximate $270 million increase in the January 1, 2010 future income taxes liability with a corresponding charge to retained earnings. This charge subsequently reverses on December 31, 2010 when the Trust converted to a corporation, resulting in the recognition of a gain in both the fourth quarter, and full year, 2010 net income.

iii) Employee future benefits

The Corporation has made a preliminary decision to recognize actuarial gains and losses on Syncrude Canada's defined benefit pension plan in other comprehensive income in the period in which they arise. The Corporation's Canadian GAAP accounting policy is to defer recognition of these gains and losses and to amortize the excess of any net actuarial gain or loss exceeding 10 per cent of the greater of the benefit obligation or fair value of the plan assets over the expected average remaining service life of active employees (approximately 12 years at both December 31, 2009 and December 31, 2010). The adoption of the new policy will result in the net pension asset or liability being fully reflected on the balance sheet

each period. As valuation changes will flow through other comprehensive income, they will not impact net income but will flow through retained earnings each period. Under IFRS, approximately $60 million of actuarial losses (net of approximately $20 million in future income taxes) will be recognized during 2010 in other comprehensive income with a corresponding increase to the employee future benefits liability.

iv) Interest capitalization

During periods when significant capital expenditures are incurred, the IFRS accounting policy to capitalize interest on certain future capital projects could result in a significant decrease in interest expense with an offsetting increase in capital expenditures. Depreciation and depletion will rise in subsequent periods over which the higher asset costs, reflecting capitalized interest, are expensed. Likewise, the IFRS policy will result in increased cash from operating activities with an equal and offsetting increase in cash used in investing activities in those periods when interest costs are capitalized. In addition, capital cost estimates for projects will be higher under IFRS due to the inclusion of an amount for interest capitalization. Approximately $30 million of interest will be capitalized in 2010, with higher amounts expected in subsequent years as the cumulative spending on several major projects increases.

v) Turnaround costs

IFRS requires that the costs of major turnarounds be capitalized and subsequently expensed as depreciation over the period until the next turnaround. Currently, under Canadian GAAP, the Corporation expenses all turnaround costs in operating expenses. The new IFRS accounting principle will result in a decrease in operating expenses in the periods when major turnaround costs are incurred with an offsetting increase in depreciation and depletion in subsequent periods over which the higher asset costs are expensed. This is expected to reduce earnings volatility resulting from major turnarounds. It will also result in an increase in cash from operating activities with an equal and offsetting increase in cash used in investing activities in those periods when major turnaround costs are incurred. The impact at January 1, 2010 is an approximate $46 million increase in property, plant and equipment with a corresponding $34 million increase in retained earnings, net of $12 million additional future income taxes. Operating expenses for 2010 will be approximately $46 million lower under IFRS while 2010 depreciation expenses will be approximately $40 million higher. Similarly, 2010 cash from operating activities and cash used in investing activities will each be $46 million higher under IFRS.

vi) Impairment of property, plant and equipment

Under IFRS, the Corporation will be required to recognize an impairment loss if the carrying amount of any property, plant and equipment exceeds its estimated future discounted cash flows. Under Canadian GAAP, estimated future cash flows used to assess impairments are not discounted. As such, impairment losses may be recognized earlier under IFRS than under Canadian GAAP. The Corporation is not anticipating any impairment of property, plant and equipment as at January 1, 2010 nor December 31, 2010 as a result of adopting IFRS.

Other post-conversion accounting policy choices and IFRS-Canadian GAAP differences will not materially impact the financial position or financial results of the Corporation. Although IFRS includes more explicit direction for componentization of property, plant and equipment for the purposes of calculating depreciation and depletion than Canadian GAAP, the Corporation does not expect any material changes to the carrying value of its property, plant and equipment nor to its depreciation and depletion expense on adoption of IFRS.

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

c) Advisory

New or revised IFRS are being developed by the International Accounting Standards Board ("IASB") that may impact the adoption of IFRS by the Corporation. These standards include joint ventures, income taxes, financial instruments, emissions trading schemes, extractive industries, employee future benefits, measurement of liabilities, and the IFRS 1 exemption relating to interest capitalization. The Corporation continues to monitor these and other accounting standard developments within IFRS which might impact its IFRS conversion.

d) IFRS Conversion Project Update

The Corporation's IFRS conversion is overseen by the Audit Committee with quarterly reports by management to that committee on the progress of the plan and any issues that may have arisen. The Corporation's IFRS project is in its final stages and is on schedule to release its first interim report under IFRS for the quarter ending March 31, 2011.

Specifically, the Corporation has completed the analysis of its information technology needs, data systems and internal controls and has concluded that they do not require any significant modification to adopt IFRS. To ensure the appropriate level of IFRS expertise is available through transition, resources have been added and ongoing education is provided to the project team, accounting staff, investor relations staff, senior management, the Audit Committee and the Board of Directors. The effects of existing IFRS on the Corporation's business activities have been reviewed and it is not expected that IFRS will result in any significant changes to the Corporation's business activities.

The adoption of IFRS also impacts Syncrude's reporting of results to the Corporation. Syncrude has an implementation project to manage its own transition to IFRS. Canadian Oil Sands and the other Syncrude owners are stewarding Syncrude's IFRS implementation to help ensure that information provided by Syncrude meets the owners' needs. Syncrude is not currently anticipating any significant modifications to its accounting systems or business activities as a result of adopting IFRS.

SYNCRUDE WATERFOWL INCIDENT

In February 2009, Syncrude Canada Ltd. ("Syncrude Canada") was charged under the Federal *Migratory Birds Convention Act* and the Alberta *Environmental Protection and Enhancement Act* 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 Syncrude Canada 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, Syncrude Canada 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.

Syncrude has always acknowledged its moral obligations for the waterfowl incident, and even prior to the ruling, had implemented improvements to its waterfowl deterrent systems. Despite these improvements, 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; waterfowl that came in contact with bitumen 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 its owners remain committed to improving environmental performance,

and in particular, the safety of wildlife in the area. More information on the environmental issues is contained in the AIF dated March 10, 2011.

RISK MANAGEMENT

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

There are a number of risks that could impact Canadian Oil Sands' net income and cash from operating activities and, therefore, the dividends ultimately paid to Shareholders. Cash from operating activities is highly sensitive to a number of factors including: Syncrude production; sales volumes; oil and natural gas prices; price differentials; foreign currency exchange rates; operating, administrative, and financing expenses; non-production costs; Crown royalties; and regulatory and environmental risks. Dividends may also be impacted by Canadian Oil Sands' financing requirements for capital expenditures. Sensitivities to the most significant items affecting cash from operating activities are provided in the "2011 Outlook" section of this MD&A.

The following discusses the significant risks that impact Canadian Oil Sands' cash from operating activities, net income, corporate reputation and EH&S performance. More information regarding Canadian Oil Sands' risks is available in its AIF dated March 10, 2011, which is available on our website at www.cdnoilsands.com or at www.sedar.com.

Commodity Price Risk

Crude Oil Price Risk

Our cash flows are impacted by changes in both the U.S. dollar denominated crude oil prices and U.S./Cdn FX rates. Over the last three years, daily WTI prices have experienced significant volatility, ranging from U.S.$145 per barrel to U.S.$34 per barrel. Also, supply, demand, and

other market factors can vary significantly between regions and, as a result, the spreads between crude oil benchmarks, such as WTI and European Brent Crude, can be volatile. These regional market dynamics have resulted in WTI trading at a historically high discount to Brent early in 2011. The main causes of this discount are high inventory levels at Cushing, increased deliveries to Cushing, and limited pipeline takeaway capacity out of Cushing.

Canadian Oil Sands prefers to remain un-hedged on crude oil prices; however, during periods of significant capital spending and financing requirements, management has in the past, and may again, hedge prices and exchange rates to reduce revenue and cash flow volatility to the Corporation.

Canadian Oil Sands did not have any crude oil price hedges in place for 2010 or 2009. Instead, a strong balance sheet was used to mitigate the risk around crude oil price movements. As at February 23, 2011, and based on current expectations, the Corporation remains un-hedged on its crude oil price exposure.

In recent years various oil sands and other conventional crude oil projects have come on-stream in Western Canada and additional projects are under development or are being contemplated. This activity will affect the supply of crude oil in the market. There is no guarantee that sufficient demand or pipeline capacity will exist to absorb the increased supply without eroding the selling price. This could result in a deterioration of the price differential that Western Canadian crude oil realizes compared with benchmark prices, such as WTI.

Natural Gas Price Risk

Purchased natural gas is a significant component of the bitumen production and upgrading processes. Increases in natural gas prices, therefore, introduce the risk of higher operating costs. Similar to crude oil prices, monthly average AECO natural gas prices have experienced significant movements over the last three years, ranging from a high of $11.15 per GJ to a low of $1.92 per GJ. To the extent crude oil and natural gas prices move together, the risk of natural gas price increases is mitigated, as the Corporation is significantly more levered to oil price increases. The main risk involves a de-linking of crude oil and natural gas price movements. The Corporation has previously used hedge positions to mitigate natural gas price risk and will continue to assess this strategy as a means to manage short-term operating costs. No natural gas price hedges were utilized in 2010 or 2009 and as at February 23, 2011, there were no natural gas price hedges in place.

Operational Risk

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

Productivity of the mining operations may be such that internally produced bitumen may not be sufficient to supply enough feed for the upgrading facility to meet its production capacity. While Syncrude has the ability to import purchased bitumen, there are physical restrictions on the amount of bitumen that can be transported into Syncrude's facilities and there is a risk that sufficient quantities of bitumen may not be available or economical. Further, the cost of purchased bitumen may be higher than Syncrude's own production costs. Partially offsetting this risk is the opportunity at periods in time, such as during coker turnarounds, for the mining operations to produce more bitumen than is required by the upgrading facility, which results in Syncrude building bitumen inventory for later use; however, Syncrude's capacity to store bitumen is limited to about 2.5 million barrels.

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

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

In addition, we are exposed to risks associated with major construction projects, including the possibility that projects will not be completed on time and/or will not achieve their design objectives.

If the mine train relocations and replacements, planned for 2011 through 2014, are not executed timely and effectively, production could be adversely impacted. At the Aurora North Mine, Syncrude has three mine trains but only operates two at any given time. To mitigate production risk at that location, the plan is to relocate each mine train while the other two mine trains are operating. In addition, the mine train relocations will be scheduled during planned upgrader outages, when demand for bitumen is lower. To mitigate the risk at the Mildred Lake North Mine, the plan is to have the replacement mine trains operating before the old mine trains are decommissioned. 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. Additional information on Syncrude's tailings management program is provided in the "Environmental Risk" discussion within the "Risk Management" section of this MD&A.

Complications could arise when major construction projects are commissioned and become operational, as new systems are integrated with existing systems and facilities. The SER project is scheduled for commissioning and start-up in 2011. SER will allow Syncrude to significantly reduce sulphur emissions and comply with regulated emissions targets which are reduced, in stages, over a three-year period following SER's start-up. While there are risks with the start-up and commissioning of any new asset, the staged emissions targets are considered reasonable and achievable.

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

We also face risks associated with competition amongst other oil sands producers for limited resources, in particular skilled labour, in the Fort McMurray area where Syncrude and other oil sands producers operate. The demand for these resources creates costs pressure on products and services to operate 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, oil sands development is again beginning to accelerate and with it a return to inflationary pressures on operating costs.

In addition, any limitations on the availability of an experienced workforce increase the risk of design or operator error. To mitigate this risk, Syncrude Canada is focused on attracting and retaining experienced and skilled labour. Syncrude Canada offers competitive industry compensation to employees and contract staff, has a very strong record for safety performance and is an innovative and socially responsible company committed to the environment and dedicated to its employees, the Aboriginal Peoples, and the communities of northern Alberta. Additionally, Syncrude Canada implemented a three-year employee retention program in 2006 which was renewed in 2009. The retention program resulted in cash payments in 2010, which may provide savings associated with an experienced workforce. To deal with the increased demands on local infrastructure, such as housing, Syncrude Canada cooperates, where they are able to, with other industry participants to share resources, such as camps.

There may also be increased activity in global industries, such as the mining sector, which are competing for constrained supplies and labour. While we do not expect any specific shortage to impact our current 2011 production outlook, the ability to achieve higher levels of production in the future may be limited by unexpected supply or labour constraints.

Capital Expenditure Risk

Inherent in the mining of oil sands and production of synthetic crude oil is a need to make substantial capital expenditures. The demand for skilled labour and other limited resources impacting operating costs is having a similar effect on capital expenditures. There is also a risk that capital maintenance at Syncrude will be required more often than currently planned, or that significant capital projects could arise that were not previously anticipated.

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

There is also risk associated with estimating costs for major projects. Canadian Oil Sands often discloses estimates for Syncrude's major projects, which encompass the conceptual stage

through to final scope design, including detailed engineering cost estimates. These projects, however, typically evolve over time and updates for timing and cost estimates are often provided during project construction. At each stage of these major projects, cost estimates involve uncertainties. Accordingly, actual costs can vary from the estimates Canadian Oil Sands provides and these differences can be significant.

Financial Market Risk

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

Foreign Currency Risk

Canadian Oil Sands' results are affected by fluctuations in the U.S./Cdn currency exchange rates, as we generate revenue from oil sales based on a U.S. dollar WTI benchmark price, while operating costs and capital costs are denominated primarily in Canadian dollars. Over the last three years, the U.S. to Canadian dollar exchange rate has experienced significant volatility, ranging from a high of $1.03 U.S./Cdn to a low of $0.77 U.S./Cdn and closing at $1.01 U.S./Cdn on December 31, 2010. 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 Senior Notes mature, we have exposure to U.S. dollar exchange rates on the principal repayment of the notes. This repayment of U.S. dollar debt acts as a partial economic hedge against the U.S. dollar denominated revenue payments we receive from our customers.

In the past, the Corporation has hedged foreign currency exchange rates by entering into fixed rate currency contracts. The Corporation did not have any foreign currency hedges in place at December 31, 2010, and as at February 23, 2011, we do not intend to enter into any new currency hedge positions. The Corporation may, however, hedge foreign currency exchange rates in the future, depending on the business environment and growth opportunities.

As at December 31, 2010, portions of Canadian Oil Sands' cash and cash equivalents, accounts receivable, accounts payable and long-term debt were denominated in U.S. dollars. Based on these U.S. dollar financial instrument closing balances, 2010 net income and other comprehensive income would have increased/decreased by approximately $10 million for every $0.01 decrease/increase in the value of the U.S./Cdn exchange rate.

Interest Rate Risk

Canadian Oil Sands' results, particularly our net interest expense, are impacted by U.S. and Canadian interest rate changes because our credit facilities and investments are exposed to

floating interest rates. In addition, we are exposed to the refinancing of maturing long-term debt at prevailing interest rates. As at December 31, 2010, $145 million was drawn on the credit facilities ($nil – December 31, 2009) and the next long-term debt maturity is in 2013. The Corporation did not have a significant exposure to interest rate risk based on the amount of floating rate debt or investments outstanding during the year.

Liquidity Risk

Liquidity risk is the risk that Canadian Oil Sands will not be able to meet its financial obligations as they come due. Canadian Oil Sands actively manages its liquidity through cash, debt and equity management strategies. Such strategies encompass, among other factors: having adequate sources of financing available through bank credit facilities, estimating future cash from operating activities based on reasonable production and pricing assumptions, understanding operating commitments and future capital expenditure requirements, analysing economic hedging opportunities, and complying with debt covenants.

In addition, over the long-term, Canadian Oil Sands spreads out the maturities of its various debt tranches and maintains a prudent capital structure. The next Senior Note maturity is in August, 2013 and $655 million is undrawn on the credit facility which does not expire until April 2012. More information regarding the available credit facilities and contractual maturities of Canadian Oil Sands' long-term debt can be found in Notes 11 and 12, respectively, to the Consolidated Financial Statements. Canadian Oil Sands was in compliance with its debt covenants as at December 31, 2010.

Credit Risk

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

Although the financial condition of some of our U.S. based refinery customers has improved from recent low levels in 2009, refinery margins remain weak. Canadian Oil Sands carries credit insurance to help mitigate a portion of the impact should a loss occur and continues to transact primarily with investment grade customers.

The Corporation's maximum credit exposure related to customer receivables was $354 million at December 31, 2010 (2009 - $329 million). At December 31, 2010, the vast majority of our accounts receivable balance was due from investment grade energy producers and refinery-based customers, and our cash and cash equivalents were held in either cash or term deposits with high-quality senior Canadian banks. Canadian Oil Sands did not have any material derivative contracts in place as at December 31, 2010. At present, there are no financial assets that are past their maturity or impaired due to credit risk-related defaults.

Syncrude Joint Venture Ownership Risk

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

Marketing and Transportation of Synthetic Crude Oil Risk

The petroleum industry is highly competitive in all aspects, including the distribution and marketing of petroleum products. Substantially all of our production is currently consumed by refineries in Canada and the United States for further processing into refined products. We compete for these markets against world wide sources of crude oil and these refineries compete against other refineries and imported refined products. In recent years, various oil sands and other conventional crude oil projects in North America have come on-stream and additional projects are under development, or are being contemplated. If the regional or global supply of crude oil or refined products increases, if North American demand for crude oil or refined products decreases, or if planned or unplanned shutdowns of refineries occurs, then the price

received for our SCO or our ability to deliver our SCO may be limited with negative implications on revenues and cash from operating activities.

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

While we believe long-term takeaway capacity will exceed crude oil supply out of Western Canada, there can be no certainty that investments will be made to provide this capacity. There is also no certainty that short-term operational constraints on the pipeline system, arising from pipeline interruptions and/or increased supply of crude oil, will not occur. We manage exposure to these risks by allocating deliveries to multiple customers via multiple pipelines; however, pipeline choices are limited.

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, resulting in a temporary, two month shut down of that pipeline and continuing pressure restrictions, which 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 additional restrictions, it is expected that there will be enough capacity to transport the supply out of Western Canada for the next few years. Furthermore, additional capacity from Western Canada to the U.S. gulf coast is currently planned to be built, pending U.S. regulatory approvals.

Environmental Risk

Canadian Oil Sands is committed to ensuring that Syncrude develops its oil sands resources in a responsible way. We are subject to laws and regulations governing the impact Syncrude and other oil sands operations have on the environment. Additionally, we are subject to reputational

risk regarding such environmental impacts. The following highlights the main environmental management risks at this time.

Tailings Management

Fine tailings, a byproduct of the oil sands mining extraction process, are comprised of silts, clays and hydrocarbon residues (collectively "fines") suspended in water. Like all oil sands mining operations, Syncrude produces a significant volume of fine tailings and stores them in tailings ponds. The fines can remain in suspension for many years, if not indefinitely. Before tailings ponds can be reclaimed, water must be separated from the suspended fines such that solidified silts, clays and hydrocarbon residues can be incorporated into reclamation landscapes. The water is recycled back into operations. To achieve this, Syncrude and most other oil sands producers use a method called composite tails, which combines fine tailings with gypsum and sand to help fines settle faster; however, additional tailings management technologies are required in order to meet government directives for closure and reclamation.

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

- reduce fine tailings by capturing a minimum amount of fines in Dedicated Disposal Areas ("DDAs");
- form and manage DDAs to ensure the formation of trafficable deposits that are ready for reclamation five years after active deposition has ceased; and
- submit to the ERCB annual compliance reports for DDAs, annual tailing plans and tailings pond status reports. DDA plans must also be submitted two years prior to construction.

On September 30, 2010, Syncrude submitted their second annual tailings plan as required by Directive 074. This plan is largely unchanged from the first annual tailings plan which was approved, with conditions, by the ERCB on April 23, 2010, and outlines a multi-pronged approach for meeting the long-term intent of Directive 074 through the implementation of three main tailings technologies:

- composite tails;
- water capping, which involves layering water over a deposit of fine tailings to form a lake; and
- centrifuging, which involves putting tailings through vessels where a spinning action separates out the water.

Syncrude is currently awaiting ERCB approval of its second annual tailings plan.

Syncrude's tailings plans incorporate the use of both water capping and centrifuging, which are developmental technologies. Syncrude has been researching water capping technology for more than 20 years with bench-scale laboratory experiments and test ponds. A commercial-scale pond will be commissioned in 2012 to serve as a demonstration of the water-capping concept. Likewise, extensive field tests have been done on centrifuging technology with the support of the Canada Centre for Mineral and Energy Technology. Notwithstanding this, there is an inherent risk that these technologies may not be as effective as desired, or perform as required in order to meet the tailings plan.

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 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 management technologies, there is a risk of increased costs to develop and implement various measures and the potential for tailings specific regulatory approval conditions to be attached to future regulatory applications and/or renewals.

In 2010 Syncrude Canada, 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' commitment 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.

Greenhouse Gas Emissions

The Syncrude operations emit greenhouse gases so legislation or regulations that significantly restrict or penalize current emission levels could have a material impact on our operations. The costs of meeting such thresholds would increase operating costs and/or capital costs, and as such, may impact the profitability of the operations.

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

For 2010, Syncrude accrued approximately $0.05 per barrel, or approximately $2 million net to the Corporation, for compliance with the Specified Gas Emitters Regulation, which is reflected in the Corporation's operating costs. The cost estimate remains preliminary, pending Syncrude's actual CO_2 emission intensity level and clarification from the Alberta government regarding details of implementation.

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

Syncrude continues to explore and implement measures to reduce energy intensity in its operations, which reduces both CO_2 emissions and operating costs. Syncrude expects these efforts will lower CO_2 emissions per barrel of SCO production. Total CO_2 emissions may, however, increase as production rises and the risk exists that these mitigation efforts will not meet societal expectations or new environmental regulations.

CONSOLIDATED RESULTS COMPARED TO PRIOR YEAR'S OUTLOOK

In its 2009 annual MD&A, the Corporation provided guidance with regard to its estimate of 2010 Syncrude production volumes, its expected cash from operating activities and its capital expenditures (the "original estimate" or "original Outlook"). During 2010 the Corporation revised this guidance in quarterly reports and information releases to reflect actual operating results for

each quarter and new significant information as it became available (the "revised estimate" or "revised Outlook").

(millions of Canadian dollars, except volume and per barrel amounts)	2010 Actual	2010 Outlook Original [1]	2010 Outlook Revised [2]
Syncrude production (mmbbls)	107	115	105
Canadian Oil Sands sales (mmbbls)	39.2	42.3	38.6
Revenues, net of crude oil purchases and transportation	3,176	3,029	3,037
Operating costs	1,439	1,480	1,449
Operating costs per barrel	36.76	35.04	37.56
Crown royalties	306	317	299
Capital expenditures	506	541	511
Cash from operating activities	1,219	1,013	1,137
Business environment assumptions			
West Texas Intermediate (US$/bbl)	$ 80	$ 70	$ 78
Premium (Discount) to average Cdn$ WTI prices (Cdn$/bbl)	$ (1.61)	$ (2.00)	$ (1.75)
Foreign exchange rate (US$/Cdn$)	$ 0.97	$ 0.95	$ 0.97
AECO natural gas (Cdn$/GJ)	$ 3.87	$ 6.00	$ 4.25

[1] *As provided in the Corporation's 2009 annual report.*

[2] *Final Outlook provided on October 28, 2010.*

Syncrude actual production in 2010 of 107 million barrels was lower than Canadian Oil Sands' original estimate of 115 million barrels due primarily to unplanned upgrading outages through the first nine months of the year; however, production volumes exceeded the October 2010 revised estimate of 105 million barrels due to strong fourth quarter production.

Cash from operating activities was $1,219 million, higher than the $1,013 million original estimate, and revenues were $3,176 million, higher than the $3,029 million original estimate. The favourable variances relative to the original estimates primarily reflect a higher-than-expected realized selling price net of lower-than-expected sales volumes. WTI oil prices averaged U.S. $79.61 per barrel, above the U.S. $70.00 per barrel original estimate, and the discount realized relative to Canadian dollar WTI (the "price differential") was $1.61 per barrel compared with the $2.00 per barrel original estimate. In October 2010 we revised our estimate of WTI prices to U.S. $78.00 per barrel and the differential to a $1.75 per barrel discount to reflect the strengthening in prices during the year. The actual realized selling price and actual sales volumes were both higher than the revised estimates.

Total operating costs of $1,439 million were below the $1,480 original estimate, reflecting lower production and natural gas costs; however, lower than anticipated sales volumes resulted in increased per barrel operating costs of $36.76, compared with the $35.04 original estimate.

Capital expenditures were $506 million, below the $541 million original estimate, mainly as a result of the deferral of project costs to future periods. The capital expenditures estimate was revised in October 2010 to $511 million, which is largely in line with actual expenditures.

2011 OUTLOOK

(millions of Canadian dollars, except volume and per barrel amounts)

Syncrude production (mmbbls)		110
Canadian Oil Sands sales (mmbbls)		40.4
Revenues, net of crude oil purchases and transportation		3,188
Operating costs		1,487
Operating costs per barrel		36.79
Crown royalties		181
Capital expenditures		927
Cash from operating activities		1,316
Business environment assumptions		
West Texas Intermediate (US$/bbl)	$	80
Premium (Discount) to average Cdn$ WTI prices (Cdn$/bbl)	$	(2.75)
Foreign exchange rate (US$/Cdn$)	$	0.98
AECO natural gas (Cdn$/GJ)	$	4.00

As at February 23, 2011, Canadian Oil Sands continues to estimate annual Syncrude production of 110 million barrels (301,400 barrels per day) with a range of 102 to 115 million barrels for 2011. Net to Canadian Oil Sands, this is equivalent to 40.4 million barrels (110,700 barrels per day). The 110 million barrel single point estimate includes one planned coker turnaround in the second half of the year. The production Outlook for 2011 represents a three million barrel, or approximately three per cent, increase over Syncrude's actual 2010 production.

Revenues, net of crude oil purchases and transportation expense, are estimated at approximately $3.2 billion, reflecting our 40.4 million barrel production estimate and a $79 per barrel sales price. The sales price assumes an average U.S. $80 per barrel WTI crude oil price, a $0.98 U.S./Cdn foreign exchange rate, and a SCO discount to Canadian dollar WTI price of $2.75 per barrel.

We are estimating operating costs of approximately $1.5 billion in 2011, comprised of approximately $1.3 billion in production costs and $0.2 billion in purchased energy. The purchased energy costs reflect a $4 per gigajoule ("GJ") natural gas price assumption and consumption of about one GJ per barrel of SCO. Based on our production assumption, this translates into approximately $37 per barrel of operating costs, similar to 2010.

Non-production costs are estimated to rise by approximately $40 million over 2010 to $145 million to support a higher 2011 capital program. Also, mainly as a result of the higher capital program, Crown royalties are expected to be $126 million lower than 2010, totalling about $180 million in 2011.

Capital costs are estimated to total $927 million in 2011, comprised of $622 million of spending on major projects and $305 million in regular maintenance of the business and other projects.

Based on these inputs, Canadian Oil Sands is estimating cash from operating activities of approximately $1.3 billion, or $2.72 per Share, in 2011. After deducting forecast 2011 capital expenditures, we estimate $389 million in remaining cash from operating activities for the year, or $0.80 per Share.

Changes in certain factors and market conditions could potentially impact Canadian Oil Sands' Outlook. The following table provides a sensitivity analysis of the key factors affecting the Corporation's performance. In addition to the factors described in the table, the supply/demand equation and pipeline access for synthetic crude oil in North American markets could impact the differential for SCO relative to crude oil benchmarks.

2011 Outlook Sensitivity Analysis (February 23, 2011)

		Cash from Operating Activities Increase	
Variable [1]	**Annual Sensitivity**	**$ millions**	**$/Share**
Syncrude operating costs decrease	C$1.00/bbl	$34	$0.07
Syncrude operating costs decrease	C$50 million	$15	$0.03
WTI crude oil price increase	US$1.00/bbl	$31	$0.06
Syncrude production increase	2 million bbls	$44	$0.09
Canadian dollar weakening	US$0.01/C$	$25	$0.05
AECO natural gas price decrease	C$0.50/GJ	$17	$0.04

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

Financial information in the 2011 Outlook incorporates adjustments to reflect Canadian Oil Sands' current IFRS accounting policy choices; however, as the policy related to interest capitalization has not been finalized, all 2011 interest is reflected as an expense and as a reduction in cash from operating activities. Future IFRS accounting policy decisions may result in revisions to the 2011 Outlook.

Controls Environment

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

We periodically review and update our internal control systems to reflect changes in our business environment. We did not materially change any of our internal controls during 2010.

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

Canadian Oil Sands, under the supervision and participation of management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures and the design of our internal control over financial reporting pursuant to National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings* as of December 31, 2010. In addition, management has evaluated the effectiveness of internal control over financial reporting as of December 31, 2010 using criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on these evaluations, Canadian Oil Sands' management concluded that:

- Our disclosure controls and procedures were effective as of December 31, 2010 to provide reasonable assurance that material information is recorded, processed, summarized and reported within the time periods specified by the applicable Canadian securities regulators. Furthermore, our disclosure controls and procedures are designed to provide reasonable assurance that material information required to be disclosed under applicable Canadian securities regulation is communicated to our management, including our President and Chief Executive Officer and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure; and
- Our internal control over financial reporting as of December 31, 2010 was designed and operated effectively to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Corporation's financial statements for external purposes in accordance with GAAP.

PricewaterhouseCoopers LLP, our auditors, have expressed an unqualified opinion on the effectiveness of Canadian Oil Sands' internal control over financial reporting as of December 31, 2010, as stated in their report which appears herein.

MANAGEMENT'S REPORT

Financial Information

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

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

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

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

Directors has approved the annual audited Consolidated Financial Statements and the Management's Discussion and Analysis based on the recommendations of the Audit Committee.

Internal Control Over Financial Reporting

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

Management has assessed the effectiveness of Canadian Oil Sands' internal control over financial reporting as of December 31, 2010 using criteria established in the *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that Canadian Oil Sands' internal control over financial reporting was effective as of December 31, 2010.

PricewaterhouseCoopers LLP, our auditors, has audited the effectiveness of Canadian Oil Sands' internal control over financial reporting as of December 31, 2010 as stated in their report which appears herein.

(signed) **Marcel R. Coutu**
President & Chief Executive Officer
February 23, 2011

(signed) **Ryan M. Kubik**
Chief Financial Officer
February 23, 2011

Independent Auditor's Report

To the Shareholders of Canadian Oil Sands Limited

We have completed integrated audits of Canadian Oil Sands Limited's 2010 and 2009 consolidated financial statements and its internal control over financial reporting as at December 31, 2010. Our opinions, based on our audits, are presented below.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Canadian Oil Sands Limited, which comprise the consolidated balance sheets as at December 31, 2010 and December 31, 2009 and the consolidated statements of income and comprehensive income, shareholders' equity and cash flows for the years then ended, and the related notes including a summary of significant accounting policies.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. Canadian generally accepted auditing standards require that we comply with ethical requirements.

An audit involves performing procedures to obtain audit evidence, on a test basis, about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting principles and policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion on the consolidated financial statements.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Canadian Oil Sands Limited as at December 31, 2010 and December 31, 2009 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Report on internal control over financial reporting

We have also audited Canadian Oil Sands Limited's internal control over financial reporting as at December 31, 2010, based on criteria established in *Internal Control - Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Management's responsibility for internal control over financial reporting

Management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report.

Auditor's responsibility

Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we consider necessary in the circumstances.

We believe that our audit provides a reasonable basis for our audit opinion on the company's internal control over financial reporting.

Definition of internal control over financial reporting

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

timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Inherent limitations

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

Opinion

In our opinion, Canadian Oil Sands Limited maintained, in all material respects, effective internal control over financial reporting as at December 31, 2010 based on criteria established in *Internal Control - Integrated Framework*, issued by COSO.

(signed) **PricewaterhouseCoopers LLP**
Chartered Accountants
Calgary, Alberta

February 23, 2011

Consolidated Statements of Income and Comprehensive Income

For the years ended December 31 *($ millions, except per Share amounts)*		**2010**		**2009**
Revenues	$	3,460	$	2,779
Expenses				
Operating		1,439		1,328
Non-production		105		141
Crude oil purchases and transportation		280		164
Crown royalties (Note 22)		306		228
Administration		23		24
Insurance		11		9
Interest, net (Note 18)		91		93
Depreciation, depletion and accretion (Note 3, Note 7)		408		570
Goodwill impairment (Note 8)		-		52
Foreign exchange gain (Note 15)		(60)		(161)
		2,603		2,448
Earnings before taxes		857		331
Future income tax recovery (Note 14)		(29)		(101)
Net income		886		432
Other comprehensive loss, net of income taxes				
Reclassification of derivative gains to net income		(3)		(3)
Comprehensive income	$	883	$	429
Weighted average shares (millions)		484		484
Shares, end of year (millions)		484		484
Net income per share:				
Basic and diluted (Note 16)	$	1.83	$	0.89

See Notes to Consolidated Financial Statements.

Consolidated Statements of Shareholders' Equity

For the years ended December 31 *($ millions)*		**2010**		**2009**
Retained earnings				
Balance, beginning of year	$	1,359	$	1,362
Net income		886		432
Unitholder distributions (Note 19)		(896)		(435)
Balance, end of year		1,349		1,359
Accumulated other comprehensive income				
Balance, beginning of year		18		21
Other comprehensive loss, net of income taxes		(3)		(3)
Balance, end of year		15		18
Unitholders' capital				
Balance, beginning of year		2,587		2,524
Issuance of Trust Units (Note 16)		-		63
Common shares issued in exchange for Trust Units (Note 2)		(2,587)		-
Balance, end of year		-		2,587
Shareholders' capital				
Balance, beginning of year		-		-
Common shares issued in exchange for Trust Units (Note 2)		2,587		-
Balance, end of year		2,587		-
Contributed surplus				
Balance, beginning of year		5		3
Stock-based compensation (Note 17)		2		2
Balance, end of year		7		5
Total Shareholders' equity	$	3,958	$	3,969

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheets

As at December 31 *($ millions)*		**2010**		**2009**
ASSETS				
Current assets				
Cash and cash equivalents	$	80	$	122
Accounts receivable		379		354
Inventories (Note 6)		129		133
Prepaid expenses		6		7
		594		616
Property, plant and equipment, net (Note 7)		6,369		6,289
Reclamation trust (Note 13)		53		48
	$	7,016	$	6,953
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Accounts payable and accrued liabilities (Note 9)	$	405	$	284
Current portion of employee future benefits (Note 10)		51		17
		456		301
Employee future benefits and other liabilities (Note 10)		67		104
Long-term debt (Note 12)		1,251		1,163
Asset retirement obligation (Note 13)		286		389
Future income taxes (Note 14)		998		1,027
		3,058		2,984
Shareholders' equity (Note 16)		3,958		3,969
	$	7,016	$	6,953

Commitments, Contingencies, and Guarantees (Notes 23, 24 and 25, respectively)

See Notes to Consolidated Financial Statements.

Approved by the Board of Directors

(signed) **Wesley R. Twiss**

Director

(signed) **Donald J. Lowry**

Director

Consolidated Statements of Cash Flows

For the years ended December 31 *($ millions)*		**2010**		**2009**
Cash from (used in) operating activities				
Net income	$	886	$	432
Items not requiring an outlay of cash:				
Depreciation, depletion and accretion		408		570
Goodwill impairment		-		52
Foreign exchange gain on long-term debt		(58)		(200)
Future income tax recovery		(29)		(101)
Actual reclamation costs		(48)		(25)
Change in employee future benefits and other liabilities		(3)		26
		1,156		754
Change in non-cash working capital (Note 26)		63		(207)
Cash from operating activities		1,219		547
Cash from (used in) financing activities				
Issuance of Senior Notes (Note 12)		-		574
Repayment of medium term and Senior Notes		-		(471)
Net drawdown of bank credit facilities (Note 11)		145		-
Distributions (Note 19)		(896)		(372)
Cash used in financing activities		(751)		(269)
Cash from (used in) investing activities				
Capital expenditures		(506)		(409)
Reclamation trust funding		(5)		(5)
Change in non-cash working capital (Note 26)		1		(2)
Cash used in investing activities		(510)		(416)
Foreign exchange loss on cash and cash equivalents held in foreign currency (Note 15)		-		(19)
Decrease in cash and cash equivalents		(42)		(157)
Cash and cash equivalents, beginning of year		122		279
Cash and cash equivalents, end of year	$	80	$	122
Cash and cash equivalents consist of:				
Cash	$	52	$	18
Short-term investments		28		104
	$	80	$	122

Supplementary Information (Note 26)

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

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

1) NATURE OF OPERATIONS

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

2) BASIS OF PRESENTATION

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada ("GAAP") and reflect the December 31, 2010 reorganization from an income trust structure into a corporate structure pursuant to which all outstanding Units of Canadian Oil Sands Trust (the "Trust") were exchanged on a one-for-one basis for common shares ("Shares") of the Corporation (the "Corporate Conversion"). The financial information of Canadian Oil Sands refers to common shares or Shares, Shareholders and dividends, which were formerly referred to as Units, Unitholders and distributions under the trust structure.

3) CHANGE IN ACCOUNTING ESTIMATE

Oil sands assets are depreciated and depleted over their estimated remaining lives, which are reviewed by management on a regular basis. During the first quarter of 2010, management determined that the usage of certain tangible equipment would be most accurately represented by a straight-line calculation on an ongoing basis. Depreciation and depletion of the oil sands assets is now estimated based on a blend of both the unit-of-production and straight-line basis. The effect of this change in estimate for the year ended December 31, 2010 is that approximately $60 million less depreciation was recorded using the new estimated remaining lives. Beyond 2010, it is not practical to estimate the effect of this change in estimate due to the long-life nature of the assets and the amounts and timing of the estimated future development costs.

4) SUMMARY OF ACCOUNTING POLICIES

Consolidation

The consolidated financial statements include the accounts of the Corporation and its subsidiaries and partnerships (collectively, "Canadian Oil Sands"). The activities of Syncrude are conducted jointly with others and, accordingly, these financial statements reflect only Canadian Oil Sands' proportionate interest in such activities, which include the production, operating expenses, non-production expenses and Crown royalty expenses, as well as a proportionate interest in Syncrude's property, plant and equipment, inventory, employee future benefits and other liabilities, asset retirement obligation, and associated amounts payable and receivable. Substantially all operations of Canadian Oil Sands are carried out through the joint venture.

Cash and Cash Equivalents

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

Property, Plant and Equipment

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

Oil sands assets are depreciated on a straight-line basis over the estimated useful lives of the assets, with the exception of intangible mine development costs, which are depleted on a unit-of-production basis over the estimated proved and probable reserves of the producing mines. The following estimated useful lives of the tangible oil sands assets are reviewed annually for any changes to those estimates:

Vehicles and equipment	5 to 20 years
Mining equipment	Lesser of 25 years and the remaining life of the mine
Upgrading and extraction	25 years
Buildings	20 to 40 years

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

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

Inventories

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

Asset Retirement Obligation

The estimated fair value of the Corporation's share of Syncrude's asset retirement obligations is recognized on the Consolidated Balance Sheets. Syncrude's reclamation obligations relate to the site restoration of each mine site. The discounted amount of the liability is recorded upon initial land

disturbance or when a reasonable estimate of the fair value of the reclamation expenditures can be determined. The fair value is determined by estimating the timing and amounts of the future reclamation expenditures, and discounting the expenditures using a credit-adjusted risk-free rate applicable to the Corporation. The asset retirement cost is equal to the estimated fair value of the asset retirement obligation and is capitalized as part of PP&E and depreciated over the remaining life of the associated mine. The asset retirement obligation is accreted based on the Corporation's credit-adjusted risk-free rate and the accretion expense is included in depreciation, depletion and accretion ("DD&A") expense in the Consolidated Statements of Income and Comprehensive Income. Actual reclamation payments are charged against the asset retirement obligation when incurred.

Revenue Recognition

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

Employee Future Benefits

Canadian Oil Sands accrues its proportionate share of obligations as a joint venture owner in respect of Syncrude Canada's employee benefit plans, net of plan assets. The cost of employee pension and other post-employment benefits is actuarially determined using the projected benefit method based on length of service and reflects Syncrude's best estimate of the expected performance of the plan investment, salary escalation factors, retirement ages of employees and future health care costs. The expected return on plan assets is based on the fair value of those assets. Past service costs from plan amendments are amortized on a straight-line basis over the estimated average remaining service life of active employees ("EARSL") at the date of amendment. The excess of any net actuarial gain or loss exceeding 10 per cent of the greater of the benefit obligation or fair value of the plan assets is amortized over the EARSL. At December 31, 2010, EARSL was approximately 12 years.

Future Income Taxes

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

Non-Monetary Transactions

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

Stock-Based Compensation

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

Canadian Oil Sands also recognizes stock-based compensation expense related to its performance units, which are awards granted to Canadian Oil Sands' officers and other select employees. Canadian Oil Sands determines compensation expense based on the estimated fair values of the performance units, the cost of which is recognized in net income over the vesting periods of the units. No issuances of Shares from treasury or purchases of shares in the secondary market related to the performance units have occurred and instead employees have received cash.

As an owner in Syncrude, Canadian Oil Sands accrues its share of amounts payable for Syncrude Canada's stock-based compensation programs with a corresponding increase or decrease in operating expenses. Syncrude Canada's programs include an Incentive Phantom Share Units Plan ("Phantom Units") and an Incentive Restricted Share Plan ("Restricted Units"), both of which require settlement by cash payments. The Phantom Units and the Restricted Units are based on a weighted-average of the price of certain Syncrude owners' shares at the time of issue. Compensation expense for the Phantom Units and Restricted Units is recognized in net income over the shorter of the normal vesting period and the period to eligible retirement if vesting is accelerated on retirement. The change in the fair values of the vested Phantom Units and Restricted Units are based on market-related values of various Syncrude owners' shares at the end of each period.

Foreign Currency Translation

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

Net Income per Share

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

Financial Instruments

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

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

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

Measurement Uncertainty

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

5) NEW ACCOUNTING STANDARDS

International Financial Reporting Standards

In 2008, the CICA Accounting Standards Board confirmed that the adoption of International Financial Reporting Standards ("IFRS") would be effective for interim and annual periods beginning on or after January 1, 2011 for Canadian publicly-accountable enterprises. As a result, Canadian Oil Sands will be reporting its results under IFRS beginning January 1, 2011. This will require the adoption of new accounting policies for several financial statement items, some of which will require retrospective adjustments to the opening comparative balance sheet on January 1, 2010. In addition to the opening balance sheet adjustments, the 2010 comparative financial statements will reflect the new accounting policies adopted under IFRS, which will also impact the annual 2010 financial statements.

6) INVENTORIES

As at December 31		2010		2009
Materials and supplies	$	106	$	113
Product and linefill		23		20
	$	129	$	133

7) PROPERTY, PLANT AND EQUIPMENT, NET

As at December 31, 2010		Cost		Accumulated Depreciation and Depletion		Net Book Value
Oil sands assets						
Upgrading and extraction	$	4,671	$	1,092	$	3,579
Mining equipment		1,657		500		1,157
Construction in progress		663		-		663
Vehicles and equipment		688		264		424
Mine development		398		91		307
Buildings		304		100		204
		8,381		2,047		6,334
Arctic assets		165		130		35
	$	8,546	$	2,177	$	6,369

As at December 31, 2009						
Oil sands assets	$	8,507	$	2,253	$	6,254
Arctic assets		165		130		35
	$	8,672	$	2,383	$	6,289

DD&A expense is comprised of the following:

For the years ended December 31		2010		2009
Depreciation and depletion expense	$	383	$	423
Impairment of Arctic assets (Note 8)		-		130
Accretion expense		25		17
	$	408	$	570

8) ARCTIC ASSET IMPAIRMENT

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

As a result of these uncertainties, the Corporation extended its assumed timing for development of the Arctic assets. Based on a net present value analysis which assumes a deferred project start date, the Corporation recorded additional depreciation and depletion of $130 million and a goodwill impairment of $52 million in 2009. The net book value of the Arctic assets after the impairment remains at $35 million.

9) ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As at December 31		2010		2009
Due to Syncrude Joint Venture/Syncrude Canada Ltd.	$	334	$	246
Accrued liabilities		51		17
Interest payable		20		21
	$	405	$	284

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

10) EMPLOYEE FUTURE BENEFITS AND OTHER LIABILITIES

As at December 31		2010		2009
Employee future benefits (a)	$	85	$	115
Accrued variable compensation and other (b)		37		45
Transition royalty (Note 22)		31		-
	$	153	$	160
Less current portion comprised of:				
Employee future benefits		(51)		(17)
Accrued variable compensation and other (included in accounts payable and accrued liabilities)		(35)		(39)
	$	67	$	104

a) Employee Future Benefits

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

Defined Benefit Plan

Syncrude measures its accrued benefit obligation and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuation of the pension plans for funding purposes was completed in 2010 and was as of December 31, 2009. The next valuation will be completed during 2011 as of December 31, 2010.

Canadian Oil Sands' share of Syncrude Canada's defined benefit plan accrued liability, based on its 36.74 per cent ownership at December 31, 2010 and December 31, 2009, is comprised of its share of Syncrude Canada's accrued benefit obligation, partially offset by its share of Syncrude Canada's defined benefit plan assets as follows:

	Pension		Other Post-Employment Benefits		Total	
As at December 31	2010	2009	2010	2009	2010	2009
Accrued benefit obligation:						
Balance, beginning of year	$ 584	$ 503	$ 48	$ 41	$ 632	$ 544
Current service cost	25	24	1	1	26	25
Interest cost	36	33	3	3	39	36
Transferred in	6	6	-	-	6	6
Benefits paid	(27)	(25)	(2)	(2)	(29)	(27)
Actuarial loss (gain)	93	43	2	5	95	48
Balance, end of year	$ 717	$ 584	$ 52	$ 48	$ 769	$ 632
Fair value of plan assets:						
Actuarial fair value, beginning of year	$ 351	$ 288	$ -	$ -	$ 351	$ 288
Actual return on plan assets	39	45	-	-	39	45
Employer contributions	71	36	-	-	71	36
Contributions - transfers	6	6	-	-	6	6
Benefits paid	(25)	(24)	-	-	(25)	(24)
Actuarial fair value, end of year	$ 442	$ 351	$ -	$ -	$ 442	$ 351
Funded status- plan deficit	$ (275)	$ (233)	$ (52)	$ (48)	$ (327)	$ (281)
Unamortized net actuarial loss	233	160	9	8	242	168
Unamortized past service costs	-	-	-	(2)	-	(2)
Accrued benefit liability	$ (42)	$ (73)	$ (43)	$ (42)	$ (85)	$ (115)

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

As at December 31	Percentage of plan assets	
	2010	2009
Equity securities	60	71
Debt securities	40	29
	100	100

Elements of defined benefit costs recognized in the year:

	Pension		Other Post-Employment Benefits		Total	
For the years ended December 31	2010	2009	2010	2009	2010	2009
Current service cost	$ 25	$ 24	$ 1	$ 1	$ 26	$ 25
Interest cost	36	33	3	3	39	36
Actual return on plan assets	(39)	(45)	-	-	(39)	(45)
Actuarial loss (gain)	93	43	2	5	95	48
Elements of employee future benefit costs before adjustments to recognize the long-term nature of employee future benefit costs	$ 115	$ 55	$ 6	$ 9	$ 121	$ 64
Adjustments to recognize the long-term nature of employee future benefit costs:						
Difference between expected return and actual return on plan assets	11	20	-	-	11	20
Difference between actuarial loss (gain) recognized for year and actual actuarial loss (gain) on accrued benefit obligation for year	(84)	(35)	(2)	(5)	(86)	(40)
Difference between amortization of past service costs for year and actual plan amendments for year	-	-	(2)	-	(2)	-
	(73)	(15)	(4)	(5)	(77)	(20)
Defined benefit costs recognized in net income	$ 42	$ 40	$ 2	$ 4	$ 44	$ 44

Significant Assumptions

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

	Pension		Other Post-Employment Benefits	
As at December 31	2010	2009	2010	2009
Accrued benefit obligation as of December 31:				
Discount rate	5.25%	6.00%	5.00%	5.75%
Rate of compensation increase	4.45%	5.00%	4.45%	5.00%
Benefit costs for years ended December 31:				
Discount rate	6.00%	6.50%	6.00%	6.50%
Expected long-term rate of return on plan assets	7.50%	8.50%	N/A	N/A
Rate of compensation increase	4.45%	5.00%	4.45%	5.00%

For measurement purposes, an eight per cent annual rate of increase in the cost of supplemental health care benefits was assumed for 2010, 2011 and 2012 (2009 - 10 per cent) decreasing by 0.5 per cent each year thereafter to a five per cent ultimate rate in 2018. In addition, an annual rate increase of four per cent in dental rates was used in 2010 and 2009.

Sensitivity Analysis

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans under other post-employment benefits. A one per cent increase or decrease in assumed health care cost trend rates would have increased or decreased the Corporation's accrued benefit obligation by $4 million. A one per cent change in such rates would not have had a material impact on the Corporation's current service and interest costs.

Defined Contribution Plans

Canadian Oil Sands' share of Syncrude Canada's defined contribution pension plan expense was approximately $3 million in 2010 (2009 - $2 million).

Total Cash Payments

Canadian Oil Sands' share of Syncrude's total cash payments for employee future benefits for 2010 was $77 million (2009 - $42 million), consisting of cash contributed by Syncrude Canada to its funded pension plans, cash to fund pension payments in excess of registered plan limits, cash payments for unfunded OPEB plans and cash contributed to its defined contribution plans.

b) Accrued Variable Compensation and Other

Syncrude Canada has short-term and long-term incentive plans that are cash settled and measured at intrinsic value. These plans include Syncrude Canada's employee retention program (Note 23) and stock-based compensation plans (Note 17).

11) BANK CREDIT FACILITIES

As at December 31, 2010		
Extendible revolving term facility (a)	$	40
Line of credit (b)		100
Operating credit facility (c)		800
	$	940

The credit facilities of Canadian Oil Sands are unsecured. The credit facility agreements contain covenants relating to the restriction on Canadian Oil Sands' ability to sell all or substantially all of its assets or to change the nature of its business. In addition, Canadian Oil Sands has agreed to maintain its total debt-to-total book capitalization at an amount less than 60 per cent, or 65 per cent in certain circumstances involving acquisitions.

a) Extendible Revolving Term Facility

The $40 million extendible revolving term facility is a 364-day facility expiring April 22, 2011. This facility may be extended on an annual basis with the agreement of the bank. Amounts borrowed through this facility bear interest at a floating rate based on bankers' acceptances plus a credit spread, while any unused amounts are subject to standby fees. As at December 31, 2010, no amounts were drawn on this facility ($nil – December 31, 2009).

b) Line of Credit

The $100 million line of credit is a one-year revolving letter of credit facility. Letters of credit drawn on the facility mature April 30th each year and are automatically renewed, unless notification to cancel is provided by Canadian Oil Sands or the financial institution providing the facility at least 60 days prior to expiry. Letters of credit on this facility bear interest at a credit spread.

Letters of credit of approximately $75 million have been written against the line of credit as at December 31, 2010 ($70 million – December 31, 2009).

c) Operating Credit Facility

The $800 million operating facility is a multi-year facility, expiring April 27, 2012. Amounts borrowed through this facility bear interest at a floating rate based on either prime interest rates or bankers' acceptances plus a credit spread, while any unused amounts are subject to standby fees. As at December 31, 2010, $145 million was drawn against this facility ($nil – December 31, 2009).

12) LONG-TERM DEBT

As at December 31		2010		2009
5.8% Senior Notes due August 15, 2013 (a)	$	296	$	311
7.75% Senior Notes due May 15, 2019 (b)		493		520
7.9% Senior Notes due September 1, 2021 (c)		245		257
8.2% Senior Notes due April 1, 2027 (d)		72		75
Credit facilities drawn, excluding letters of credit (Note 11)		145		-
	$	1,251	$	1,163

Canadian Oil Sands' Senior Notes 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.

a) 5.8% Senior Notes

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

b) 7.75% Senior Notes

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

c) 7.9% Senior Notes

On August 24, 2001, the Corporation issued U.S. $250 million of 7.9% Senior Notes, maturing September 1, 2021. Interest is payable on the notes semi-annually on March 1 and September 1. The Corporation has agreed to maintain its debt-to-book capitalization at an amount less than 55 per cent.

d) 8.2% Senior Notes

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

e) Future Payments

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

2012	$	145
2013		298
After five years		820
	$	1,263

13) ASSET RETIREMENT OBLIGATION AND RECLAMATION TRUST

Canadian Oil Sands and each of the other Syncrude owners are liable for their share of ongoing environmental obligations related to the ultimate reclamation of the Syncrude properties on abandonment. The Corporation estimates reclamation expenditures will be made over approximately the next 70 years and has applied an average credit-adjusted risk-free discount rate of six per cent (2009 - six per cent) in deriving the asset retirement obligation.

The following table presents the reconciliation of the beginning and ending aggregate carrying amount of the Corporation's share of the obligation associated with the retirement of the Syncrude properties:

For the years ended December 31		2010		2009
Asset retirement obligation, beginning of year	$	389	$	235
Liabilities settled		(48)		(25)
Accretion expense		25		17
Change in estimated future cash flows		(43)		162
Asset retirement obligation, end of year		323		389
Less current portion		(37)		-
Non-current portion	$	286	$	389

The decrease in the Corporation's asset retirement obligation from $389 million at December 31, 2009 to $323 million at December 31, 2010 is a result of actual payments during the year as well as a change in the estimated timing of certain future expenditures, partially offset by increases in cost estimates, revised material movement assumptions to reflect mine plan changes, and the recognition of an asset retirement obligation pertaining to Syncrude's upgrader facilities.

The total undiscounted estimated cash flows required to settle the Corporation's share of Syncrude's obligation was $1,194 million at December 31, 2010 (December 31, 2009 – $903 million).

The reclamation expenditures will be funded from Canadian Oil Sands' cash from operating activities and reclamation trust. In addition to annual funding for reclamation expenditures, Canadian Oil Sands deposits $0.1322 per barrel of production attributable to its working interest in Syncrude to a reclamation trust established for the purpose of funding its share of environmental and reclamation

obligations. As at December 31, 2010, including interest earned on investments, the balance of the reclamation trust was $53 million (December 31, 2009 - $48 million).

Additionally, Canadian Oil Sands has posted letters of credit with the Province of Alberta in the amount of $75 million (December 31, 2009 - $70 million) to secure its pro rata share of the reclamation obligations of the Syncrude owners.

14) FUTURE INCOME TAXES

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

For the years ended December 31		2010		2009
Earnings before taxes	$	857	$	331
Statutory rates				
Federal		28.00%		29.00%
Federal abatement		-10.00%		-10.00%
Alberta provincial rate		10.00%		10.00%
		28.00%		29.00%
Expected taxes at statutory rate	$	240	$	96
Add (Deduct) the tax effect of:				
Net income attributable to the Trust - tax sheltered		(251)		(126)
Statutory rate adjustment for future tax rate reductions		-		(63)
Non-taxable portion of capital (gains) losses		(8)		(29)
Non-deductible portion of goodwill impairment		-		15
Assessments, adjustments and other		(10)		6
Future income tax recovery	$	(29)	$	(101)

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

The amount shown on the Consolidated Balance Sheets as future income taxes represent the taxable temporary differences of assets and liabilities of Canadian Oil Sands, tax-effected using substantively enacted tax rates expected to apply when the differences reverse.

Future income taxes are comprised of the following:

As at December 31		2010		2009
Property, plant and equipment and other assets in excess of tax value	$	(1,043)	$	(1,596)
Liabilities in excess of tax value		45		569
Future income taxes	$	(998)	$	(1,027)

As at December 31, 2010, the following are the estimated balances available for deduction against future taxable income:

As at December 31		2010
Undepreciated Capital Costs ("UCC") [1]		
Federal UCC	$	1,812
Provincial UCC	$	1,733
Non-capital losses [2]		
Federal	$	264
Provincial	$	203
Canadian Development Expense	$	89
Canadian Exploration Expense	$	18
Investment tax credits - Scientific Research and Exploration Development	$	22

[1] *Approximately 46 per cent are deductible at an accelerated rate up to income from a mine, and the remaining balance is deductible at the declining balance rate of 25 per cent annually.*

[2] *Federal and provincial non-capital losses of $206 and $171, respectively, expire in 2028. Federal and provincial non-capital losses of $58 and $32, respectively, expire in 2029.*

15) FOREIGN EXCHANGE

The foreign exchange gain in 2010 was primarily due to the revaluation of U.S. dollar denominated long-term debt. In 2009, Canadian Oil Sands reported a foreign exchange gain on revaluation of long-term debt and a foreign exchange loss of $39 million on other items, which included a $19 million foreign exchange loss on U.S. dollar cash held by Canadian Oil Sands from its May, 2009 financing to retire U.S. $250 million of debt in August, 2009.

16) SHAREHOLDERS' EQUITY

a) Shareholders' capital

Authorized

The Corporation is authorized to issue an unlimited number of common shares without nominal or par value, and a maximum of 10,000,000 preferred shares, issuable in series.

Issued

	Number of Units (millions)		Proceeds
Unitholders' capital, January 1, 2009	481.6	$	2,524
Issued on February 27, 2009 under DRIP	1.7		33
Issued on May 29, 2009 under DRIP	1.2		30
Unitholders' capital, December 31, 2009	484.5	$	2,587
Common shares issued in exchange for Trust Units on December 31, 2010	(484.5)		(2,587)
Unitholders' capital, December 31, 2010	-	$	-

	Number of Shares (millions)		Proceeds
Shareholders' capital, January 1, 2010	-	$	-
Common shares issued in exchange for Trust Units on December 31, 2010	484.5		2,587
Shareholders' capital, December 31, 2010	484.5	$	2,587

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

On December 31, 2010, as described in Note 2, Canadian Oil Sands reorganized from an income trust structure to a corporate structure whereby all outstanding Trust Units were exchanged on a one-for-one basis for Shares of the Corporation.

b) Premium Dividend, Dividend Reinvestment and Optional Share Purchase Plan

On December 31, 2010, upon conversion from an income trust structure to a corporate structure, the Trust DRIP was replaced by the Corporation's Premium Dividend, Dividend Reinvestment and Optional Share Purchase Plan ("Corporate DRIP"). Eligible Shareholders are able to participate in the Corporate DRIP for the quarterly dividends payable subject to enrolment and certain other conditions. The Corporate DRIP allows eligible Shareholders to direct their dividends to the purchase of additional Shares at 95 per cent of the Average Market Price, as defined in the Corporate DRIP. The Corporate DRIP also provides an alternative whereby eligible Shareholders can, under the premium dividend component, have their dividends invested in new Shares and exchanged through the plan broker for a premium dividend equal to up to 102 per cent of the amount that the other Shareholders would otherwise receive on the dividend date. Under the terms of the Corporate DRIP, eligible Shareholders have the option to purchase additional Shares for cash at 100 per cent of the average market price if they participate in either of the premium dividend or dividend reinvestment components of the Corporate DRIP.

The Trust DRIP was re-instated for the first and second quarter distributions of 2009, and was subsequently suspended again in the third quarter of 2009. The Corporate DRIP is also currently

suspended; however, the Corporation may re-instate the Corporate DRIP to fund future investing activities, if required.

c) Net Income Per Share

For the years ended December 31	2010	2009
Weighted-average Shares outstanding, Basic	484	484
Effect of options	-	-
Weighted-average Shares outstanding, Diluted	484	484

17) STOCK-BASED COMPENSATION

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

a) Canadian Oil Sands' Stock-based Compensation Plans

In 2010, Canadian Oil Sands maintained two stock-based compensation plans, as described below.

Unit Incentive Option Plan

On December 31, 2010, all outstanding options existing under the Unit Incentive Option Plan were converted to the Transition Option Plan as part of the Corporate Conversion. The options retained all of the characteristics that existed under the previous plan. As at December 31, 2010, Canadian Oil Sands had 1,649,756 options outstanding under its Transition Option Plan. The initial exercise price is based on the price of the Shares on the preceding day prior to the issuance of the options. The exercise price is reduced by the amount of dividends in excess of a threshold set by the Board of Directors at the time of the original grant. Other than exceptions relating to retirement, death or termination, each option has a term of seven years and vests in equal amounts over a three-year period.

Issued and outstanding

Date	Number of Options (millions)	Weighted-Average Exercise Price
Outstanding at January 1, 2009	0.8	$ 32.83
Granted in 2009	0.5	19.77
Outstanding at December 31, 2009	1.3	$ 27.85
Granted in 2010	0.4	$ 28.20
Outstanding at December 31, 2010	1.6	$ 27.37
Exercisable at December 31, 2009	0.5	$ 30.73
Exercisable at December 31, 2010	0.8	$ 28.63

Exercise Price	Number of Options Outstanding (millions)	Weighted-Average Remaining Life (Years)	Weighted-Average Exercise Price
$17.60 - $27.91	1.2	4.6	$ 23.24
$28.20 - $43.26	0.4	4.3	38.93
	1.6	4.5	$ 27.37

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

For the years ended December 31	2010	2009
Risk-free interest rate (%)	3.00	3.75
Expected life (years)	4.5	4.5
Expected volatility (%)	36	31
Expected distribution per Unit ($)	1.40	0.60
Fair value per stock option ($)	5.64	4.57

Unit Incentive Plan

Canadian Oil Sands granted performance units pursuant to a Unit Incentive Plan since 2006. On December 31, 2010, all outstanding performance units under that plan were converted to performance awards under a new Equity Incentive Plan as part of the Corporate Conversion. The new performance units ("PSUs") retained all of the characteristics that existed under the previous plan. The PSUs are earned on the third anniversary of the date of grant, at which time the holder is entitled to receive an amount either in the form of Shares purchased in the secondary market, issued from treasury, or in the form of cash, equal to the aggregate current market value of the number of Shares subject to the PSUs. The number of units granted under the PSUs is dependent on the total shareholder return generated by the Corporation at the end of the three years compared to a peer group, with the actual unit equivalents earned ranging from zero to double the target award. At December 31, 2010 a total of 238,424 PSUs were outstanding (2009 – 197,635); however, no PSUs were vested at December 31, 2010 or 2009.

Canadian Oil Sands recorded approximately $1 million of administration expense in 2010 (2009 - $6 million) related to its stock-based compensation plans.

b) Syncrude Canada's Stock-based Compensation Plans

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

Incentive Restricted Share Units Plan

Syncrude Canada implemented its Restricted Units program in 2006 which awards Restricted Units to certain employees. The Restricted Units have value if the composite value of the weighted-average stock price of 70 per cent of the Corporation's shares and 30 per cent of certain other Syncrude owners' public shares at the time of exercise by Syncrude Canada employees exceeds the composite value of the issue price of the awards. The Restricted Units vest three years after the date of issuance and require settlement by cash payments. Employees who retire prior to the vesting period may be eligible to receive pro-rated Restricted Units based upon the ratio of service provided during the vesting period relative to the full vesting period. At the end of the vesting period, the cash settlement is based on the weighted-average price of the shares of certain Syncrude owners at that time and the total shareholder return of such owners' shares as compared to a relative peer group. At December 31, 2010 a total of 874,327 Restricted Units were outstanding (2009 – 673,541); however, no Restricted Units were vested at December 31, 2010 or 2009.

Incentive Phantom Share Units Plan

Syncrude Canada implemented a stock-based compensation plan during 2002 which awarded Phantom Units to certain employees. The Phantom Units have value if the composite value of the weighted-average stock price of 70 per cent of the Corporation's shares and 30 per cent of certain other Syncrude owners' public shares at the time of exercise by Syncrude Canada employees exceeds the composite value of the issue price of the awards. The Phantom Units issued up to 2005 have a term of seven years and are subject to a vesting schedule under which up to 50 per cent of the Phantom Units are exercisable after one year of issuance, an additional 25 per cent may be exercised after two years, and the remaining 25 per cent may be exercised after three years. Phantom Units issued under this plan after 2005 have a term of seven years and vest in equal amounts over a three-year period. When the awards are exercised they are settled in cash. At December 31, 2010 a total of 2.9 million Phantom Units were outstanding (2009 – 2.1 million) and a total of 1.3 million Phantom Units were exercisable (2009 - 0.7 million).

In 2010, Canadian Oil Sands recorded a $2 million recovery in operating expenses related to its share of Syncrude Canada's stock-based compensation plans as a result of a decrease in the value of the plans (2009 - $11 million expense).

18) INTEREST, NET

For the years ended December 31		2010		2009
Interest expense on long-term debt	$	92	$	94
Interest income and other		(1)		(1)
Interest expense, net	$	91	$	93

19) UNITHOLDER DISTRIBUTIONS PRIOR TO CORPORATE CONVERSION

Pursuant to the Trust's trust indenture in effect until December 30, 2010, the Trust distributed all the distributable income received or receivable by the Trust in a quarter. The Trust's distributable income primarily consisted of a royalty from its operating subsidiary, Canadian Oil Sands Limited ("COSL"). The royalty was designed to capture the cash generated by COSL, after the deduction of all costs and expenses including: operating and administrative costs, income taxes, capital expenditures, debt interest and principal repayments, working capital and reserves for future obligations deemed appropriate. The amount of royalty income that the Trust received in any period had a considerable amount of flexibility through the use of discretionary reserves and debt borrowings or repayments (either intercompany or third party). Quarterly distributions were determined by COSL's Board of Directors after considering the current and expected economic and operating conditions, ensuring financing capacity for Syncrude's expansion projects and/or Canadian Oil Sands' acquisitions, and with the objective of maintaining an investment grade credit rating.

For the years ended December 31		2010		2009
Cash from operating activities	$	1,219	$	547
Add (Deduct):				
Capital expenditures		(506)		(409)
Change in non-cash working capital [1]		1		(2)
Reclamation trust funding		(5)		(5)
Change in cash and cash equivalents and financing, net [2]		187		304
Unitholder distributions	$	896	$	435
Unitholder distributions per Trust Unit	**$**	**1.85**	**$**	**0.90**

[1] *From investing activities.*

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

20) CAPITAL MANAGEMENT

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

As at December 31		2010		2009
Long-term debt	$	1,251	$	1,163
Cash and cash equivalents		(80)		(122)
Net debt	$	1,171	$	1,041
Shareholders' equity	$	3,958	$	3,969
Total capitalization [1]	$	5,129	$	5,010
Net debt to total capitalization (%)		23		21

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

Net debt increased to $1,171 million at December 31, 2010 from $1,041 million at December 31, 2009. The increase was primarily a result of capital expenditures, reclamation trust fund contributions, and Unitholder distributions exceeding cash from operating activities, partially offset by a stronger Canadian dollar at December 31, 2010 relative to the prior year-end, which reduced the Canadian dollar equivalent value of the U.S. dollar denominated long-term debt.

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

- ensuring financing capacity for Syncrude's oil sands-related investing activities;
- targeting an investment grade credit rating and financial flexibility to control risk and allow the Corporation to maintain its crude oil price exposure; and
- distributing to Shareholders any cash that is not required for financing Syncrude's operations or capital investment.

As disclosed in Notes 11 and 12, the Corporation is bound by certain debt covenants; however, these covenants do not specifically limit the Corporation's ability to pay dividends. The Corporation monitors its total debt-to-total book capitalization, as it must be less than 55 per cent according to certain financial covenants. With a net debt-to-total capitalization of 23 per cent at December 31, 2010, the Corporation is well within its limits and a significant increase in debt or decrease in equity would be required to negatively impact the Corporation's financial flexibility.

21) FINANCIAL INSTRUMENTS

The Corporation's financial instruments include cash and cash equivalents, accounts receivable, reclamation trust investments, accounts payable, accrued liabilities and long-term debt. The carrying values of the Corporation's financial instruments and their related categories at December 31, 2010 are as follows:

	Held for Trading	Loans & Receivables	Available for Sale	Other Liabilities	Total Carrying Value
Cash and cash equivalents	$ 80	$ -	$ -	$ -	$ 80
Accounts receivable	-	379	-	-	379
Reclamation trust	-	-	53	-	53
Accounts payable and accrued liabilities[1]	-	-	-	368	368
Long-term debt	-	-	-	1,251	1,251
	$ 80	$ 379	$ 53	$ 1,619	$ 2,131

[1] *Excludes current portion of asset retirement obligation*

Fair Values

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

As at December 31	2010		2009	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
5.8% Senior Notes due August 15, 2013 (US$300 million)	295	325	311	339
7.75% Senior Notes due May 15, 2019 (US$500 million)	494	590	520	611
7.9% Senior Notes due September 1, 2021 (US$250 million)	246	300	257	307
8.2% Senior Notes due April 1, 2027 (US$73.95 million)	71	83	75	83
	$ 1,106	$ 1,298	$ 1,163	$ 1,340

Fair value hierarchy

CICA Handbook Section 3862 *Financial Instruments* – Disclosures requires disclosure about the inputs to fair value measurements, including their classification within a hierarchy that prioritizes the inputs to fair value measurement. The Corporation's only financial instruments carried at fair value on the balance sheet are cash and cash equivalents and the reclamation trust short-term investments. Both of these instruments are included in level one in the fair value hierarchy, which means that the fair values are determined based on quoted prices in active markets for identical assets.

Financial Instrument Risk Management

As at December 31, 2010 and 2009, respectively, Canadian Oil Sands had no financial risk management positions outstanding.

Foreign Currency Risk

Canadian Oil Sands' results are affected by fluctuations in the U.S./Cdn currency exchange rates as we generate revenue from oil sales based on a U.S. dollar WTI benchmark price, while operating costs and capital costs are denominated primarily in Canadian dollars. Over the last three years, the U.S. to Canadian dollar exchange rate has experienced significant volatility, ranging from a high of $1.03 U.S./Cdn to a low of $0.77 U.S./Cdn and closing at $1.01 U.S./Cdn on December 31, 2010. 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 Senior Notes mature, we have exposure to U.S. dollar exchange rates

on the principal repayment of the notes. This repayment of U.S. dollar debt acts as a partial economic hedge against the U.S. dollar denominated revenue payments we receive from our customers.

In the past, the Corporation has hedged foreign currency exchange rates by entering into fixed rate currency contracts. The Corporation did not have any foreign currency hedges in place at December 31, 2010, and as at February 23, 2011, we do not intend to enter into any new currency hedge positions. The Corporation may, however, hedge foreign currency exchange rates in the future, depending on the business environment and growth opportunities.

As at December 31, 2010, portions of Canadian Oil Sands' cash and cash equivalents, accounts receivable, accounts payable and long-term debt were denominated in U.S. dollars. Based on these U.S. dollar financial instrument closing balances, 2010 net income and other comprehensive income would have increased/decreased by approximately $10 million for every $0.01 decrease/increase in the value of the U.S./Cdn exchange rate.

Interest Rate Risk

Canadian Oil Sands' results, particularly our net interest expense, are impacted by U.S. and Canadian interest rate changes because our credit facilities and investments are exposed to floating interest rates. In addition, we are exposed to the refinancing of maturing long-term debt at prevailing interest rates. As at December 31, 2010, $145 million was drawn on the credit facilities ($nil – December 31, 2009) and the next long-term debt maturity is in 2013. The Corporation did not have a significant exposure to interest rate risk based on the amount of floating rate debt or investments outstanding during the year.

Liquidity Risk

Liquidity risk is the risk that Canadian Oil Sands will not be able to meet its financial obligations as they come due. Canadian Oil Sands actively manages its liquidity through cash, debt and equity management strategies. Such strategies encompass, among other factors: having adequate sources of financing available through bank credit facilities, estimating future cash from operating activities based on reasonable production and pricing assumptions, understanding operating commitments and future capital expenditure requirements, analysing economic hedging opportunities, and complying with debt covenants.

In addition, over the long-term, Canadian Oil Sands spreads out the maturities of its various debt tranches and maintains a prudent capital structure. The next Senior Note maturity is in August, 2013 and $655 million is undrawn on the credit facility which does not expire until April 2012. More information regarding the available credit facilities and contractual maturities of Canadian Oil Sands' long-term debt can be found in Notes 11 and 12, respectively, to the Consolidated Financial Statements. Canadian Oil Sands was in compliance with its debt covenants as at December 31, 2010.

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

		Cash outflow by period			
($ millions)	Total	< 1 year	1 - 3 years	4 - 5 years	After 5 years
Accounts payable and accrued liabilities	405	405	-	-	-
Long-term debt [1]	1,813	82	525	128	1,078

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

Credit Risk

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

Although the financial condition of some of our U.S. based refinery customers has improved from recent low levels in 2009, refinery margins remain weak. Canadian Oil Sands carries credit insurance to help mitigate a portion of the impact should a loss occur and continues to transact primarily with investment grade customers.

The Corporation's maximum credit exposure related to customer receivables was $354 million at December 31, 2010 (2009 - $329 million). At December 31, 2010, the vast majority of our accounts receivable balance was due from investment grade energy producers and refinery-based customers, and our cash and cash equivalents were held in either cash or term deposits with high-quality senior Canadian banks. Canadian Oil Sands did not have any material derivative contracts in place as at December 31, 2010. At present, there are no financial assets that are past their maturity or impaired due to credit risk-related defaults.

22) CROWN ROYALTIES

Beginning in 2009, Syncrude transitioned to paying Crown royalties based on bitumen production rather than on the production of SCO. From 2009 through 2015, Syncrude's Crown royalties are determined pursuant to the Syncrude Royalty Amending Agreement and the Syncrude Bitumen Royalty Option Agreement.

Under the Syncrude Royalty Amending Agreement, the Syncrude owners pay the greater of 25 per cent of net deemed bitumen revenues, or one per cent of gross deemed bitumen revenues, plus a transition royalty of up to $975 million ($358 million net to the Corporation) for the period January 1, 2010 to December 31, 2015. The transition royalty of $975 million is reduced proportionally if bitumen production is less than

345,000 barrels per day over the period. The $975 million ($358 million net to the Corporation) is scheduled over six annual installments as follows:

($ millions)

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

The Syncrude Royalty Amending Agreement requires that bitumen be valued by a formula that references the value of bitumen based on a Canadian heavy oil price adjusted for reasonable quality, transportation and handling deductions (including diluent costs) to reflect the quality and location differences between Syncrude's bitumen and the reference price of bitumen. The Alberta government, Syncrude, and the Syncrude owners are in discussions to determine the appropriate adjustments for quality, transportation and handling. 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 Syncrude and its owners' interpretation of the Syncrude Royalty Amending 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 owners 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.

Under the Syncrude Bitumen Royalty Option Agreement, costs related to capital expenditures that were deducted in computing Crown royalties on SCO in prior years, and are no longer associated with the royalty base, are recaptured by the Crown. These recapture amounts result in approximately $30 million of additional Crown royalties per year, net to the Corporation, over the 25-year period from 2009 to 2033.

23) COMMITMENTS

Canadian Oil Sands is obligated to make future cash payments under existing contractual agreements that it has entered into either directly or as an owner in Syncrude. The following table outlines the significant commitments that the Corporation is required to fund:

($ millions)	Total	< 1 year	1 - 3 years	4 - 5 years	After 5 years
Pension plan solvency deficiency payments (a)	312	48	127	36	101
Pipeline commitments (b)	445	37	57	37	314
Capital commitments (c)	124	124	-	-	-
Management services agreement (d)	108	17	51	34	6
Other commitments (e)	300	172	68	17	43
	1,289	398	303	124	464

a) Pension Plan Solvency Deficiency Payments

The latest actuarial valuation was completed in 2010 for Syncrude Canada's defined benefit pension plan and it requires payments to fund the pension plan solvency deficiency. Canadian Oil Sands' share of these funding requirements is $312 million over the next 14 years.

b) Pipeline Commitments

Canadian Oil Sands has a long-term agreement with Alberta Oil Sands Pipeline Limited ("AOSPL") to transport production from the Syncrude plant gate to Edmonton, Alberta. The agreement provides for reimbursement on a cost of service basis, including operating expenses, cash taxes paid, and a return on the depreciated rate base. The agreement commits Canadian Oil Sands to pay its proportionate share of the cost of service whether or not it ships any volumes on the pipeline. The projected cost of service for 2011 is $19 million and it is expected to average $17 million through to 2035.

c) Capital Expenditure Commitments

Canadian Oil Sands is committed to remaining costs of approximately $114 million related to its share of Syncrude's Emissions Reduction project, which are expected to be incurred in 2011, as well as its share of Syncrude's various committed capital costs.

d) Management Services Agreement

Effective November 1, 2006, Syncrude Canada entered into a comprehensive Management Services Agreement with Imperial Oil Resources Ltd. ("Imperial Oil") to provide operational, technical and business management services to Syncrude Canada. The agreement has an initial term of 10 years, with five-year renewal provisions. Either Syncrude Canada or Imperial Oil has the option to cancel the agreement on 24 months notice for any reason. Canadian Oil Sands' 36.74 per cent share of the annual fixed fee payable to Imperial Oil for the first 10 years under the agreement is $17 million per year. After the first three years through to year 10, variable performance fees also apply based on the achievement of certain performance targets. Such variable fees may be comparable to the fixed fee component if Syncrude Canada realizes a corresponding benefit through higher production and/or lower per barrel operating costs. In 2010, the first year of application of the variable fees, no such fees were earned.

e) Other commitments

Syncrude has entered into purchase commitments for natural gas deliveries at floating market prices. All of the commitments outstanding at December 31, 2010 expire in 2011. Canadian Oil Sands' 36.74 per cent share of these commitments is estimated to be $87 million.

Syncrude has employee retention and employee housing incentive programs for permanent Fort McMurray-based employees. Each began on April 1, 2009 and end on March 31, 2012 and March 31, 2019, respectively. Syncrude's estimated commitment related to the programs is $180 million, or $66 million net to Canadian Oil Sands.

Syncrude has various other vendor commitments outstanding for non-capital items which total $87 million, or $32 million net to Canadian Oil Sands.

24) CONTINGENCIES

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

25) GUARANTEES

Canadian Oil Sands has posted performance standby letters of credit with the Province of Alberta which are renewed annually. The letters of credit guarantee to the Province of Alberta the reclamation obligations of Canadian Oil Sands' interest in future reclamation of the Syncrude mine sites (Note 13). The Province of Alberta can draw on the letters of credit if Syncrude fails to perform its reclamation duties on its mine sites. The maximum potential amount of payments Canadian Oil Sands may be liable for pursuant to these letters of credit is $75 million.

26) SUPPLEMENTARY INFORMATION

a) Change in Non-cash Working Capital

For the years ended December 31		2010		2009
Operating activities				
Accounts receivable	$	(25)	$	(170)
Inventories		4		(40)
Prepaid expenses		1		(2)
Accounts payable and accrued liabilities		121		-
Less: Current portion of ARO		(37)		-
Less: A/P and A/R changes reclassed to investing and other		(1)		5
Change in operating non-cash working capital	$	63	$	(207)
Investing activities				
Accounts receivable	$	(5)	$	(9)
Accounts payable and accrued liabilities		6		7
Change in investing non-cash working capital	$	1	$	(2)

b) Interest and Taxes Paid

For the years ended December 31		2010		2009
Income tax paid	$	-	$	-
Interest paid	$	91	$	92

c) Major Customers

In connection with the marketing and sale of Canadian Oil Sands' own synthetic crude oil for the year ended December 31, 2010, the Corporation had two customers (2009 - one) which individually accounted for more than 10 per cent of consolidated revenues. Sales to these customers in 2010 were approximately $1,292 million (2009 - $713 million).

27) PRIOR PERIOD COMPARATIVES

Certain prior period comparative figures have been reclassified to conform to the current period's presentation.

Toronto Stock Exchange
COS

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

COMPUTERSHARE TRUST COMPANY OF CANADA
600, 530 8th Avenue SW
Calgary, Alberta T2P 3S8
Telephone: 1 (800) 564 6253
Fax: (403) 267 6598
E mail: service@computershare.com

Auditors
PRICEWATERHOUSECOOPERS LLP
CHARTERED ACCOUNTANTS
Calgary, Alberta

Internal Auditors
DELOITTE & TOUCHE LLP
Calgary, Alberta

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

Investor and Media Contact
SIREN FISEKCI
Vice President, Investor and Corporate Relations
Telephone: (403) 218 6220
Fax: (403) 218 6201
Email: invest@cdnoilsands.com

Canadian Oil Sands

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