Q4
FOURTH QUARTER REPORT

Canadian Oil Sands' 2010 cash from operating activities and net income more than doubles over 2009

All financial figures are unaudited and in Canadian dollars unless otherwise noted. Financial information reflects Canadian Oil Sands' conversion from an income trust structure to a corporate structure on December 31, 2010 and, as such, refers to shares, shareholders and dividends which were formerly referred to as Units, Unitholders and distributions under the trust structure.

TSX - COS

Calgary, Alberta (January 27, 2011) – Canadian Oil Sands Limited ("Canadian Oil Sands", "COS" or "we") today announced cash from operating activities of $222 million ($0.46 per share) for the fourth quarter of 2010 compared with cash from operating activities of $328 million ($0.68 per share) for the same period last year. The quarter-over-quarter decrease in cash from operating activities reflects increased operating expenses, mainly due to a planned coker turnaround in the 2010 fourth quarter, and an increase in working capital requirements. These factors offset an increase in revenues from higher oil prices and a decrease in Crown royalties.

Highlights

(millions of Canadian dollars, except per Share and per barrel volume amounts)	Three Months Ended December 31		Twelve Months Ended December 31	
	2010	**2009**	**2010**	**2009**
Net Income	$ 311	$ 96	$ 886	$ 432
Per Share - Basic	$ 0.64	$ 0.20	$ 1.83	$ 0.89
Cash from (used in) Operating Activities	$ 222	$ 328	$ 1,219	$ 547
Per Share	$ 0.46	$ 0.68	$ 2.52	$ 1.13
Distributions	$ 242	$ 169	$ 896	$ 435
Per Share	$ 0.50	$ 0.35	$ 1.85	$ 0.90
Sales Volumes [1]				
Total (MMbbls)	10.6	10.9	39.2	37.6
Daily average (bbls)	114,739	119,287	107,280	103,129
Operating Costs ($/bbl)	$ 37.35	$ 30.18	$ 36.76	$ 35.29
Net Realized SCO Selling Price ($/bbl)	$ 83.97	$ 78.67	$ 80.53	$ 69.47
West Texas Intermediate (average $US/bbl) [2]	$ 85.24	$ 76.13	$ 79.61	$ 62.09

[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.

For the year ended December 31, 2010 cash from operating activities rose 123 per cent to $1,219 million ($2.52 per share) from $547 million ($1.13 per share) in 2009. The increase was mainly due to higher production and crude oil prices, partially offset by higher operating expenses and Crown royalties.

Net income for the 2010 fourth quarter was $311 million ($0.64 per share) compared with $96 million ($0.20 per share) recorded in the same period of 2009. The increase mainly reflects higher revenues, lower Crown royalties and higher foreign exchange gains on the U.S. dollar denominated long-term debt, partially offset by higher operating costs. In addition, net income in the 2009 fourth quarter included an impairment charge on COS' Arctic assets, which was reflected in the financial statements through higher depreciation, depletion and accretion expense and a goodwill impairment charge.

On an annual basis, net income totaled $886 million ($1.83 per share) in 2010 compared with $432 million ($0.89 per share) in 2009. The increase mainly reflects higher revenues partially offset by higher operating expenses, higher Crown royalties and smaller foreign exchange gains on the U.S. dollar denominated long-term debt in 2010. Net income in 2009 also included the charge related to the Arctic assets and a $63 million future income tax recovery.

"COS has completed a successful year in 2010, with Syncrude having achieved the second highest annual production in its history. We quickly recaptured the higher profit margins of a rising oil price due to our unhedged position, resulting in cash flow and earnings more than doubling year-over-year," said Marcel Coutu, President and Chief Executive Officer. "We also completed our conversion from a trust to a corporation at year-end and coincidentally will begin our first year of reporting under International Financial Reporting Standards in 2011."

COS has declared a quarterly dividend amount of $0.20 per share for shareholders of record on February 22, 2011, payable on February 28, 2011.

Added Coutu: "As forecasted in early December, we have declared a $0.20 dividend, which primarily reflects the reinvestment of a greater share of our cash flow to maintain and grow our mining and bitumen production facilities over the coming years. We also take a longer-term view when establishing dividend levels to help minimize frequent adjustments, particularly in response to moves in crude oil prices."

Sales volumes in 2010 were the second highest on record, totaling 39 million barrels, or about 108,000 barrels per day compared with 103,000 barrels per day in 2009. The increase in sales volumes reflected better reliability through most of the operations and a less extensive coker turnaround. The planned coker turnaround impacted fourth quarter production, resulting in sales volumes of about 115,000 barrels per day compared with 119,000 barrels per day in the 2009 fourth quarter.

"During the last two months of 2010, Syncrude averaged more than 350,000 barrels per day, which provides encouragement of our objective to extend these performance levels to comparable annual targets," said Coutu.

Operating costs in 2010 were $36.76 per barrel compared with $35.29 per barrel in 2009. The increase primarily reflects higher maintenance costs associated with mining equipment, and a larger scope of turnaround activity in 2010 versus 2009.

Capital expenditures in 2010 rose to $506 million compared with $409 million in 2009, as spending began on a multi-year project to replace or relocate four of Syncrude's five mining trains.

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 COS to achieve its objective of increasing tax pools to approximately $2 billion at the end of 2010. COS continues to maintain a strong financial position with net debt to total capitalization of 23 per cent.

Syncrude's total recordable injury rate for 2010 was 0.43 for every 100 person-years worked compared with a rate of 0.36 for 2009. Syncrude is committed to protecting and promoting the safety and well being of its employees and contractors.

2011 Outlook

Canadian Oil Sands released its 2011 Budget on December 2, 2010. We continue to estimate Syncrude production of 110 million barrels with a range of 102 to 115 million barrels for 2011. Net to COS, 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.

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 US$80 per barrel WTI crude oil price, a $0.98 U.S./Cdn foreign exchange rate, and an SCO discount to Canadian dollar WTI price of $2.75 per barrel.

We are estimating operating costs of approximately $1.5 billion in 2011, or approximately $37 per barrel based on our production assumption.

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, COS 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 are estimating $389 million in remaining cash from operating activities for the year, or $0.80 per share.

More information on our Outlook is provided in the Management's Discussion and Analysis section of this report and the January 27, 2011 guidance document, which is available on our web site at www.cdnoilsands.com under "Investor Centre".

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") was prepared as of January 27, 2011 and should be read in conjunction with the unaudited interim consolidated financial statements of Canadian Oil Sands Limited (the "Corporation") for the three and twelve months ended December 31, 2010 and December 31, 2009, the audited consolidated financial statements and MD&A of Canadian Oil Sands Trust (the "Trust") for the year ended December 31, 2009 and the Trust's Annual Information Form ("AIF") dated March 22, 2010. Additional information on the Trust, including its AIF, is available on SEDAR at www.sedar.com or on the Corporation's website at www.cdnoilsands.com. References to Canadian Oil Sands include the Corporation and 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 and the related press release contain "forward-looking statements" under applicable securities law. Forward-looking statements in this MD&A include, but are not limited to, statements with respect to the 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 expectations regarding 2011 and beyond capital expenditures and operating costs; 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 volatility of depreciation, depletion and accretion expense in 2011 and beyond; the expected funding increases in 2011 for the Corporation's share of Syncrude's pension and reclamation funding; 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 and beyond; 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 Trust's Annual Information Form dated March 22, 2010 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. 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 as 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 Trust Units were exchanged on a one-for-one basis for common shares ("Shares") of Canadian Oil Sands Limited (the "Corporation").

REVIEW OF SYNCRUDE OPERATIONS

During the fourth quarter of 2010, crude oil production from the Syncrude Joint Venture ("Syncrude") totalled 29.0 million barrels, or 316,000 barrels per day, compared with 30.1 million barrels, or 327,000 barrels per day, during the fourth quarter of 2009. Net to the Corporation, production totaled 10.7 million barrels in the fourth quarter of 2010 compared with 11.1 million barrels in the fourth quarter of 2009, based on Canadian Oil Sands' 36.74 per cent working interest in Syncrude.

Syncrude production for the fourth quarter was stronger than anticipated, exceeding the 27.0 million barrels estimated in the Corporation's October 28, 2010 Outlook. However, fourth quarter 2010 volumes were lower than in the fourth quarter of 2009 primarily because of the planned turnaround on Coker 8-1, which began in September 2010 and was completed in late October 2010.

For the full year 2010, Syncrude produced 107.0 million barrels, or about 293,000 barrels per day, resulting in the second highest production year on record. Production volumes fell short of the Corporation's original 115.0 million barrel estimate in the 2010 Budget, due primarily to unplanned upgrading outages through the first nine months of the year. However, volumes exceeded the revised 105.0 million barrel estimate from the October 28, 2010 Outlook due to strong fourth quarter production. Syncrude produced 102.2 million barrels, or about 280,000 barrels per day in 2009. Higher production in 2010 relative to the prior year was primarily the result of improved reliability and a less extensive Coker turnaround.

Canadian Oil Sands' operating costs were $394 million, or $37.35 per barrel, in the fourth quarter of 2010, compared with $331 million, or $30.18 per barrel, in the same quarter of 2009, largely reflecting the planned 2010 Coker 8-1 turnaround (see the "Operating Costs" section of this MD&A for further discussion).

The productive capacity of Syncrude's facilities is approximately 350,000 barrels per day on average, including an allowance for downtime, and is referred to as "barrels per calendar day". All references to Syncrude's production 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.

SUMMARY OF QUARTERLY RESULTS

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

[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.

REVIEW OF FINANCIAL RESULTS

Highlights

(millions of Canadian dollars, except per Share and per barrel volume amounts)	Three Months Ended December 31		Twelve Months Ended December 31	
	2010	**2009**	**2010**	**2009**
Net Income	$ 311	$ 96	$ 886	$ 432
Per Share - Basic	$ 0.64	$ 0.20	$ 1.83	$ 0.89
Cash from (used in) Operating Activities	$ 222	$ 328	$ 1,219	$ 547
Per Share	$ 0.46	$ 0.68	$ 2.52	$ 1.13
Distributions	$ 242	$ 169	$ 896	$ 435
Per Share	$ 0.50	$ 0.35	$ 1.85	$ 0.90
Sales Volumes (1)				
Total (MMbbls)	10.6	10.9	39.2	37.6
Daily average (bbls)	114,739	119,287	107,280	103,129
Operating Costs ($/bbl)	$ 37.35	$ 30.18	$ 36.76	$ 35.29
Net Realized SCO Selling Price ($/bbl)	$ 83.97	$ 78.67	$ 80.53	$ 69.47
West Texas Intermediate (average $US/bbl) (2)	$ 85.24	$ 76.13	$ 79.61	$ 62.09

(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.

Net income per Barrel

($ per bbl) [1]	Three Months Ended December 31 2010	2009	Variance	Twelve Months Ended December 31 2010	2009	Variance
Revenues after crude oil purchases and transportation expense	86.36	78.67	7.69	81.21	69.47	11.74
Operating costs	(37.35)	(30.18)	(7.17)	(36.76)	(35.29)	(1.47)
Crown royalties	(7.06)	(8.47)	1.41	(7.80)	(6.06)	(1.74)
	41.95	40.02	1.93	36.65	28.12	8.53
Non-production costs	(2.29)	(3.26)	0.97	(2.68)	(3.75)	1.07
Administration and insurance	(0.49)	(0.75)	0.26	(0.85)	(0.87)	0.02
Interest, net	(2.02)	(2.03)	0.01	(2.33)	(2.45)	0.12
Depreciation, depletion and accretion	(8.37)	(23.78)	15.41	(9.70)	(15.16)	5.46
Loss on disposal of assets	(1.69)	-	(1.69)	(0.72)	-	(0.72)
Goodwill impairment	-	(4.73)	4.73	-	(1.38)	1.38
Foreign exchange gain (loss)	3.31	2.10	1.21	1.54	4.28	(2.74)
Future income tax (expense) recovery	(0.97)	1.16	(2.13)	0.73	2.67	(1.94)
	(12.52)	(31.29)	18.77	(14.01)	(16.66)	2.65
Net income per barrel	29.43	8.73	20.70	22.64	11.46	11.18
Sales volumes (MMbbls) [2]	10.6	10.9	(0.3)	39.2	37.6	1.6

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

In the fourth quarter of 2010, the Corporation reported net income of $311 million, or $0.64 per Share, compared with $96 million, or $0.20 per Share, for the fourth quarter of 2009. The increase reflects higher revenues, lower Crown royalties, and higher foreign exchange gains on the U.S. dollar denominated long-term debt in 2010, partially offset by higher operating expenses. In addition, the fourth quarter of 2009 net income included a $148 million after-tax impairment charge on the Corporation's

Arctic assets which was reflected in the financial statements through higher depreciation, depletion and accretion expense and a goodwill impairment charge.

On an annual basis, net income totaled $886 million, or $1.83 per Share, compared with $432 million, or $0.89 per Share, recorded in 2009. The increase reflects higher revenues partially offset by higher operating expenses, higher Crown royalties and smaller foreign exchange gains on the U.S. dollar denominated long-term debt in 2010. In addition, 2009 net income included the $148 million after-tax impairment charge on the Corporation's Arctic assets and a $63 million future income tax recovery due to tax rate reductions substantively enacted during the first quarter of 2009.

Revenues after crude oil purchases and transportation costs totaled $912 million in the fourth quarter of 2010 compared with $863 million in the fourth quarter of 2009. On an annual basis, revenues after crude oil purchases and transportation costs increased to $3,180 million in 2010 from $2,615 million in 2009. The increase in quarter-over-quarter revenues reflects higher crude oil prices in the fourth quarter of 2010 partially offset by lower sales volumes, while the increase in annual revenues reflects both higher crude oil prices and higher sales volumes in 2010 (see the "Revenues after Crude Oil Purchases and Transportation Expense" section of this MD&A for further discussion).

Cash from operating activities was $222 million, or $0.46 per Share, for the fourth quarter of 2010. This compares with cash from operating activities of $328 million, or $0.68 per Share, for the fourth quarter of 2009. Higher revenues and lower Crown royalties in the fourth quarter of 2010 were more than offset by higher operating expenses due mainly to the planned Coker 8-1 turnaround. In addition, fourth quarter 2010 cash from operating activities reflected larger non-cash working capital requirements as September 30, 2010 accounts receivable and payable levels were impacted by the Coker turnaround.

On an annual basis, cash from operating activities increased to $1,219 million for 2010 from $547 million in 2009. The increase was mainly due to higher revenues partially offset by higher operating expenses and Crown royalties in 2010. In addition, non-cash working capital requirements were lower by the end of 2010 mainly as a result of an increase in Crown royalties payable and a decrease in accounts receivable relative to the end of 2009.

Non-cash working capital and changes therein can vary significantly on a period-to-period basis as a result of the timing and settlements of accounts receivable and accounts payable balances, and are impacted by a number of factors including changes in: revenue, operating expenses, Crown royalties, capital expenditures and inventory fluctuations.

Revenues after Crude Oil Purchases and Transportation Expense

($ millions)	Three Months Ended December 31 2010	2009	Variance	Twelve Months Ended December 31 2010	2009	Variance
Sales revenue [1]	$ 935	$ 894	$ 41	$ 3,456	$ 2,775	$ 681
Crude oil purchases	(18)	(24)	6	(254)	(133)	(121)
Transportation expense	(6)	(8)	2	(26)	(31)	5
	911	862	49	3,176	2,611	565
Currency hedging gains [1]	1	1	-	4	4	-
	$ 912	$ 863	$ 49	$ 3,180	$ 2,615	$ 565
Sales volumes (MMbbls) [2]	10.6	10.9	(0.3)	39.2	37.6	1.6

[1] The sum of sales revenue and currency hedging gains equals Revenues on the Consolidated Statements of Income and Comprehensive Income. 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.

($ per barrel)	Three Months 2010	2009	Variance	Twelve Months 2010	2009	Variance
Realized SCO selling price before hedging [3]	$ 83.88	$ 78.59	$ 5.29	$ 80.44	$ 69.37	$ 11.07
Currency hedging gains	0.09	0.08	0.01	0.09	0.10	(0.01)
Net realized SCO selling price	$ 83.97	$ 78.67	$ 5.30	$ 80.53	$ 69.47	$ 11.06

[3] SCO sales revenue net of crude oil purchases and transportation expense divided by sales volumes, net of purchased crude oil volumes.

	Three Months 2010	2009	Variance	Twelve Months 2010	2009	Variance
West Texas Intermediate (average $US/bbl)	85.24	76.13	9.11	79.61	62.09	17.52
SCO discount (weighted-average $Cdn/bbl)	(2.63)	(1.69)	(0.94)	(1.61)	(1.08)	(0.53)
Average foreign exchange rates (US$/Cdn$)	0.99	0.95	0.04	0.97	0.88	0.09

The increase in revenues after crude oil purchases and transportation expense in the fourth quarter of 2010 relative to the fourth quarter of 2009 reflects a higher realized selling price for our synthetic crude oil (“SCO”) partially offset by lower sales volumes. During the fourth quarter of 2010, the West Texas Intermediate (“WTI”) crude oil price averaged U.S. $85 per barrel compared to U.S. $76 per barrel in the fourth quarter of 2009. The impact of the higher U.S. dollar WTI oil price in the fourth quarter of 2010 was offset somewhat by a stronger Canadian dollar, which averaged $0.99 U.S./Cdn for the fourth quarter of 2010 versus $0.95 U.S./Cdn for the fourth quarter of 2009.

The increase in annual sales revenue after crude oil purchases and transportation expense in 2010 relative to 2009 mainly reflects both a higher realized selling price and higher sales volumes. Annually, WTI averaged U.S. $80 per barrel in 2010 versus U.S. $62 per barrel in 2009 while the Canadian dollar averaged $0.97 U.S./Cdn in 2010 versus $0.88 U.S./Cdn in 2009.

The Corporation’s SCO price is also affected by the premium or discount realized relative to Canadian dollar WTI (the “differential”). In the fourth quarter of 2010, the Corporation realized a weighted-average SCO discount of $2.63 per barrel compared to a $1.69 per barrel discount for the fourth quarter of 2009. On an annual basis, the Corporation realized a weighted-average SCO discount of $1.61 per barrel in 2010 compared to a $1.08 per barrel discount for 2009. The differential is dependent upon the supply

and demand for SCO and, accordingly, can change quickly depending upon the short-term supply and demand dynamics in the market and pipeline availability for transporting crude oil. Industry pipeline volume restrictions in the fourth quarter of 2010 had a modest negative impact on the Corporation's weighted-average SCO price.

The Corporation's fourth quarter sales volumes averaged 115,000 barrels per day in 2010 and 119,000 barrels per day in 2009. The decline in quarter-over-quarter sales volumes mainly reflects the Coker 8-1 turnaround, which began in September 2010 and continued until late October 2010. On an annual basis, sales volumes averaged 107,000 barrels per day in 2010 compared with 103,000 barrels per day in 2009. The higher sales volumes in 2010 were primarily the result of improved reliability and a less extensive Coker turnaround than in 2009.

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 per barrel bitumen and SCO costs. The information allocates costs to bitumen production and upgrading based on deductibility for bitumen royalty purposes. 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.

	Three Months Ended December 31				Twelve Months Ended December 31			
	2010		2009		2010		2009	
	$/bbl Bitumen	$/bbl SCO	$/bbl Bitumen	$/bbl SCO	$/bbl Bitumen	$/bbl SCO	$/bbl Bitumen	$/bbl SCO
Bitumen production	$ 22.03	$ 23.98	$ 16.55	$ 19.23	$ 20.63	$ 24.34	$ 19.32	$ 22.81
Internal fuel allocation [2]	2.43	2.64	2.34	2.72	2.49	2.94	2.32	2.74
Total produced bitumen costs	24.46	26.62	18.89	21.95	23.12	27.28	21.64	25.55
Upgrading costs [1]		14.77		10.96		13.34		12.53
Less: Internal fuel allocation to bitumen [2]		(2.64)		(2.72)		(2.94)		(2.74)
Bitumen purchases		-		-		-		0.32
Total Syncrude operating costs		38.75		30.19		37.68		35.66
Canadian Oil Sands' adjustments [3]		(1.40)		(0.01)		(0.92)		(0.37)
Total operating costs		37.35		30.18		36.76		35.29
(thousands of barrels per day)	Bitumen	SCO	Bitumen	SCO	Bitumen	SCO	Bitumen	SCO
Syncrude production volumes [4]	343	316	380	327	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 $3.45 per GJ and $3.87 per GJ for the three and twelve months ended December 31, 2010, respectively and $4.33 per GJ and $3.95 per GJ for the three and twelve months ended December 31, 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 SCO production volumes include the impact of processed purchased bitumen volumes.

	Three Months Ended December 31		Twelve Months Ended December 31	
($/bbl of SCO)	2010	2009	2010	2009
Production costs	32.82	26.41	$ 32.49	$ 31.39
Purchased energy	4.53	3.77	4.27	3.90
Total operating costs	37.35	30.18	$ 36.76	$ 35.29
(GJs/bbl of SCO)				
Purchased energy consumption	1.31	0.87	1.10	0.99

In the fourth quarter of 2010, operating costs were $394 million, averaging $37.35 per barrel, compared with $331 million, or $30.18 per barrel, in the fourth quarter of 2009. On an annual basis, operating costs were $1,439 million in 2010, averaging $36.76 per barrel, compared with $1,328 million, or $35.29 per barrel, in 2009.

The increase in operating costs for the fourth quarter of 2010 relative to the fourth quarter of 2009 was primarily due to the turnaround of Coker 8-1.

The increase in annual operating costs for 2010 relative to 2009 reflects higher 2010 production volumes and the impact of the following:

- 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 only one major turnaround, on Coker 8-3, is reflected in the 2009 costs;
- 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 a reduction in 2010 bitumen purchases relative to 2009, 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 totaled $24 million and $35 million in the fourth quarters of 2010 and 2009, respectively. On an annual basis, non-production costs totaled $105 million for 2010 and $141 million for 2009. The decrease in non-production costs primarily reflects the treatment of project expenditures for mine train replacement and relocation and tailings initiatives. In 2010, these costs were capitalized as property, plant and equipment while, in 2009, they were expensed due to the early stage of project development.

Non-production costs consist primarily of development expenditures relating to capital programs, such as pre-feasibility engineering, technical and support services, research and development, evaluation drilling, and regulatory 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.

Crown Royalties

In the fourth quarter of 2010, Crown royalties decreased to $75 million, or $7.06 per barrel, from $93 million, or $8.47 per barrel, in the comparable 2009 quarter, reflecting lower deemed bitumen revenues and higher operating expenses and capital expenditures. On an annual basis, 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 an additional transition royalty expense, which did not apply until January 1, 2010.

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.

Interest Expense, Net

($ millions)	Three Months Ended December 31		Twelve Months Ended December 31	
	2010	2009	2010	2009
Interest expense on long-term debt	$ 22	$ 23	$ 92	$ 94
Interest income and other	(1)	-	(1)	(1)
Interest expense, net	$ 21	$ 23	$ 91	$ 93

Interest expense during the fourth quarter of 2010 was largely unchanged from the fourth quarter of 2009. Likewise, on an annual basis, 2010 interest expense was largely unchanged from 2009.

Depreciation, Depletion and Accretion Expense

($ millions)	Three Months Ended December 31		Twelve Months Ended December 31	
	2010	2009	2010	2009
Depreciation and depletion expense	$ 82	$ 124	$ 355	$ 423
Impairment of Arctic assets	-	130	-	130
Accretion expense	6	6	25	17
	$ 88	$ 260	$ 380	$ 570

Depreciation, depletion and accretion expense decreased to $88 million in the fourth quarter of 2010 from $260 million in the fourth quarter of 2009 due to a $130 million impairment charge on the Corporation's Arctic assets recorded in the fourth quarter of 2009 and changes made in 2010 to the estimation methodology used to allocate asset costs to reporting periods.

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. Depreciation, depletion and accretion expense decreased from 2009 to 2010 due to the effect of this change in accounting estimate. The effect of the change for the three and twelve months ended December 31, 2010 is that approximately $38 million and $88 million less depreciation and depletion expense, respectively, 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 no longer be materially impacted by production changes.

Depreciation, depletion and accretion expense for the full year 2010 decreased to $380 million from $570 million in 2009 as a result of the impairment charge recorded in 2009 as well as the change in estimation methodology discussed above.

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 Corporation estimates that 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 Syncrude's estimated environmental reclamation costs, decreased to $323 million at December 31, 2010 from $389 million at December 31, 2009. The decrease reflects a deferral in the estimated timing of some reclamation expenditures due to revised mine and tailings treatment plans, 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 from $903 million at December 31, 2009 to $1,194 million at December 31, 2010, 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 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, 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 participants.

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 $15 million and $47 million for the fourth quarter and full year 2010, respectively, similar to amounts recorded in 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 (Gain) Loss

($ millions)	Three Months Ended December 31 2010	Three Months Ended December 31 2009	Twelve Months Ended December 31 2010	Twelve Months Ended December 31 2009
Foreign exchange (gain) loss-long term debt	$ (39)	$ (28)	$ (58)	$ (200)
Foreign exchange (gain) loss-other	4	5	(2)	39
Total foreign exchange (gain) loss	$ (35)	$ (23)	$ (60)	$ (161)

Foreign exchange ("FX") gains/losses are primarily the result of revaluations 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 to $1.01 U.S./Cdn at December 31, 2010 from $0.97 U.S./Cdn at September 30, 2010 and $0.96 U.S./Cdn at December 31, 2009. The FX gains in 2009 were likewise the result of a strengthening in the value of the Canadian dollar relative to the U.S. dollar to $0.96 U.S./Cdn at December 31, 2009 from $0.93 U.S./Cdn at September 30, 2009 and $0.82 U.S./Cdn at December 31, 2008.

Future Income Tax and Other

In the fourth quarter of 2010, a future income tax expense of $9 million was recorded versus a recovery of $13 million in the fourth quarter of 2009. On an annual basis, a future income tax recovery of $29 million was recorded in 2010 compared with a recovery of $101 million in 2009. The recoveries were the result of decreases in temporary differences between accounting and tax values of Canadian Oil Sands' assets and liabilities in both years. In addition to the future income tax amounts recorded on changes in temporary differences, a future income tax recovery of $63 million was recorded during the first quarter of 2009 on the substantive enactment of tax rate reductions.

CAPITAL EXPENDITURES

Capital expenditures for 2010 totaled $506 million, largely in line with the $511 million estimated in the Corporation's revised October 28, 2010 Outlook but below the $541 million estimated in the 2010 Budget, mainly as a result of the deferral of project costs to future periods. Capital expenditures were $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 and relocations, which involve reconstructing or moving crushers, surge facilities and slurry preparation equipment to shorten haul distances and support compliance with 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.

In the fourth quarter of 2010, capital expenditures totaled $163 million compared with expenditures of $101 million in the fourth quarter of 2009. The SER project accounted for $29 million and $28 million of the capital spent in each of the fourth quarters of 2010 and 2009, respectively. Mine train replacements and relocations accounted for $26 million and $19 million of the capital spent in each of the fourth quarters of 2010 and 2009, respectively. Capital expenditures on a per barrel basis were $15.38 and $9.18 in the fourth quarters of 2010 and 2009, respectively, reflecting both higher spending and lower sales volumes in the 2010 period.

Syncrude is undertaking the SER project, which commenced in 2006, to retrofit technology into the operation of Syncrude's original two cokers by the end of 2011 in order to reduce total sulphur dioxide and other emissions. The estimate of the total cost of the SER project remains at $1.6 billion ($590 million net to the Corporation) and the Corporation's share of SER expenditures to date is approximately $409 million.

Capital expenditures may fluctuate considerably year-to-year due to the timing of expansions, equipment replacement and other factors.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The following table outlines the significant financial obligations that are known as of January 27, 2011, which represent future cash payments that the Corporation is required to make under existing contractual arrangements that it has entered into 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	38	63	37	1,056
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	518	891	289	2,598

[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 that was 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 changes were made to the Corporation's commitments:

- an actuarial valuation of the pension obligation as at December 31, 2009 resulted in additional funding requirements over the next 24 years of approximately $265 million, with the majority of the funding requirements due within the next five years; and
- a $288 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.

DISTRIBUTIONS

	Three Months Ended December 31		Twelve Months Ended December 31	
($ millions)	2010	2009	2010	2009
Cash from operating activities	$ 222	$ 328	$ 1,219	$ 547
Net income	$ 311	$ 96	$ 886	$ 432
Unitholder distributions	$ 242	$ 169	$ 896	$ 435
Excess (shortfall) of cash from operating activities over Unitholder distributions	$ (20)	$ 159	$ 323	$ 112
Excess (shortfall) of net income over Unitholder distributions	$ 69	$ (73)	$ (10)	$ (3)

In the fourth quarter of 2010, net income exceeded Unitholder distributions by $69 million; however, Unitholder distributions exceeded cash from operating activities by $20 million, primarily because of the $149 million of cash used to fund the increase in non-cash working capital. This shortfall was financed through a draw on the Corporation's credit facilities.

On an annual basis, 2010 Unitholder distributions exceeded net income by $10 million while 2010 cash from operating activities exceeded Unitholder distributions by $323 million, reflecting the impact of non-cash expenses included in the calculation of net income such as depletion, depreciation 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 dividend of approximately $97 million. The dividend will be paid on February 28, 2011 to Shareholders of record on February 22, 2011. Dividend levels are established with the intent of absorbing short-term market volatility over several quarters.

Following the Corporate Conversion on December 31, 2010, Canadian Oil Sands intends to continue with its approach of providing a variable payout to investors. As a trust, Canadian Oil Sands' distributions reflected the cash that was not reinvested in the business for operations, investment capital, and the management of net debt levels. Dividend payments will continue to reflect this approach.

As a corporation, Canadian Oil Sands is subject to corporate taxation. While approximately $2 billion in tax pools are available to shelter income from cash taxes, cash from operating activities, and therefore dividend payments, will ultimately be affected by corporate taxation. Dividend amounts will also be impacted by an expected increase in capital expenditures to fund Syncrude's capital program, and consistent with past practice, the Corporation intends to use a portion of its cash from operating activities to help finance such expenditures.

Dividend payments are 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. We will strive to reduce the impact of significant fluctuations in these factors on dividends by taking a longer-term view, and we may distribute more or less in a period than is generated in cash from operating activities or net income. However, the variable nature of cash from operating activities and net income means Canadian Oil Sands' dividend amounts also are likely to be variable, and any expectations regarding the stability or sustainability of dividends are unwarranted and should not be inferred.

In determining the Corporation's dividend, Canadian Oil Sands also considers funding requirements for its share of Syncrude's pension and reclamation funding, which amounted to $127 million and $69 million in 2010 and 2009, respectively. The increase in 2010 is due to additional reclamation activities and increased pension funding as a result of the actuarial valuation completed in April 2010.

Debt covenants do not specifically limit the Corporation's ability to pay dividends and are not expected to influence the Corporation's liquidity in the foreseeable future. Aside from covenants relating to restrictions on Canadian Oil Sands' ability to sell all or substantially all of its assets, or to change the nature of its business, the most restrictive financial covenant limits total debt-to-total capitalization 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 dividends or financial flexibility.

LIQUIDITY AND CAPITAL RESOURCES

($ millions)	December 31 2010	December 31 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.

SHAREHOLDERS' CAPITAL AND UNIT TRADING ACTIVITY

Following the Corporate Conversion effective December 31, 2010, the Corporation had 484.4 million outstanding Shares, which began trading on January 6, 2011 on the Toronto Stock Exchange under the symbol COS. Prior to this, the Trust had 484.4 million outstanding Units 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. The following table reflects the Unit trading activity for the entire fourth quarter of 2010.

Canadian Oil Sands Trust - Trading Activity	Fourth Quarter 2010	December 2010	November 2010	October 2010
Unit price				
High	$ 28.65	$ 28.65	$ 28.12	$ 26.94
Low	$ 24.30	$ 24.30	$ 25.67	$ 25.44
Close	$ 26.45	$ 26.45	$ 27.91	$ 25.56
Volume of Trust Units traded (millions)	113.4	52.7	34.2	26.5
Weighted average Trust Units outstanding (millions)	484.4	484.4	484.4	484.4

TAILINGS MANAGEMENT

On April 23, 2010 the Energy Resources Conservation Board ("ERCB") approved, with conditions, Syncrude's revised tailings pond plans submitted in September 2009 under Tailings Directive 074. These plans outline a multi-pronged approach for meeting the long-term intent of Directive 074, and include the implementation of three main tailings technologies: water capping, composite tails and centrifuge technology. Issued by the ERCB in February 2009, Tailings Directive 074 and its Tailings Performance Criteria and Requirements for Oil Sands Mining Schemes requires operators to prepare tailings plans and report on tailings ponds annually, reduce the solids content of fluid tailings through the capture of fine particles from the production process in dedicated disposal areas, and convert fines into trafficable deposits which are ready for reclamation five years after deposits have ceased.

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 with the result that waterfowl that came in contact with bitumen on the settling basins 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 their environmental performance, and in particular, the safety of wildlife in the area. More information on the environmental issues is contained in the Annual Information Form of the Trust dated March 22, 2010.

FINANCIAL RISK MANAGEMENT

The Corporation did not have any financial derivatives outstanding at December 31, 2010.

Crude Oil Price Risk

Canadian Oil Sands' revenues are impacted by changes in both the U.S. dollar denominated crude oil prices and U.S./Cdn FX rates. The Corporation did not have any crude oil price hedges in place during 2010 or 2009, and does not currently intend to enter into any crude oil hedge positions. The Corporation may hedge this exposure in the future, however, depending on the business environment and our growth opportunities.

Foreign Currency Risk

Canadian Oil Sands' results are affected by fluctuations in the U.S./Cdn currency exchange rates, as revenues generated are based on a U.S. dollar WTI benchmark price while certain obligations are denominated in Canadian dollars. The Corporation did not have any foreign currency hedges in place during 2010 or 2009, and does not currently 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.

Interest Rate Risk

Canadian Oil Sands' net income and cash from operating activities are impacted by interest rate changes based on the amount of floating rate debt outstanding or upon the refinancing of maturing long-term debt at prevailing interest rates. As at December 31, 2010 there was no floating interest rate debt outstanding, and the next long-term debt maturity is in August 2013.

Liquidity Risk

Liquidity risk is the risk that Canadian Oil Sands will not be able to meet its financial obligations as they fall due. Canadian Oil Sands actively manages its liquidity risk through its cash, debt and equity strategies. The next long-term debt maturity is in August, 2013, and $655 million is undrawn on the credit facility which does not expire until April 2012.

Credit Risk

Canadian Oil Sands is exposed to credit risk primarily through customer accounts receivable balances and financial counterparties with whom the Corporation has invested its cash or from whom it has purchased its term deposits. The maximum exposure to any one customer or financial counterparty is controlled through a credit policy that limits exposure based on credit ratings.

The financial condition of some of our U.S.-based refinery customers came under pressure during 2010, reflecting low refinery margins. 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 vast majority of accounts receivable at December 31, 2010 was due from investment grade energy producers and refinery-based customers.

At December 31, 2010, our cash and cash equivalents were invested mainly in term deposits with high-quality senior Canadian banks. As of January 27, 2011, there are no financial assets that are past their maturity or impaired due to credit risk-related defaults.

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 Canadian Oil Sands.

International Financial Reporting Standards ("IFRS")

IFRS will replace 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 made preliminary decisions to utilize exemptions relating to employee future benefits, interest capitalization, asset retirement obligations, business combinations, and leases. Similarly, the Corporation has made preliminary 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

By utilizing the interest capitalization exemption, the Corporation will be exempted from capitalizing interest on assets already under construction at January 1, 2010. As described in the "Significant Accounting Policy Changes Post Conversion" section below, interest on certain future capital projects will be capitalized.

iii) Asset retirement obligations

The Corporation intends to utilize the asset retirement obligation exemption which provides a method for adjusting the asset retirement obligations and the related property, plant and equipment assets 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.

Current estimates suggest that 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

Based on an analysis of differences between IFRS and Canadian GAAP, 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 obligations

The Corporation has made a preliminary decision to discount the estimated fair value of its asset retirement obligations and the related property, plant and equipment assets 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 $30 million, respectively, with an offsetting $100 million charge to January 1, 2010 retained earnings net of a $30 million future income tax recovery. 2010 depreciation, depletion and accretion expense is not expected to change significantly under IFRS.

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. The asset retirement obligation is currently estimated to rise to approximately $450 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 $190 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 current 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). IFRS currently allows the use of either method. 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

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. During periods when significant capital expenditures are incurred, the IFRS accounting policy 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.

As described in the "IFRS 1 - First-Time Adoption of International Financial Reporting Standards" section above, by utilizing the interest capitalization exemption, the Corporation will be exempted from capitalizing interest on assets already under construction at January 1, 2010. Most of the major projects to be executed over the next several years will therefore be exempt and thus this IFRS policy change is currently not expected to materially impact Canadian Oil Sands' financial results in the short-term. However, we understand that the interest capitalization exemption under IFRS 1 may be amended in 2011 such that interest on all assets that take a substantial period of time to construct must be capitalized on a prospective basis from January 1, 2010, irrespective of whether such assets are already under construction at January 1, 2010. This would result in the capitalization of approximately $30 million of interest during 2010, with higher amounts expected in subsequent years as the cumulative spending on these 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. 2010 operating expenses 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.

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 are not expected to 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

The preliminary decisions about IFRS 1 exemptions and accounting policy choices, and the assessments of differences between IFRS and Canadian GAAP have not been finalized. As such, the preliminary decisions and estimated impacts of adopting IFRS may change. In addition, other differences may exist between amounts reported by the Corporation under Canadian GAAP versus IFRS. 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 to the project team 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.

2011 OUTLOOK

(millions of Canadian dollars, except volume and per barrel amounts)		December 2, 2011		January 27, 2011
Syncrude production (MMbbls)		110		110
Canadian Oil Sands sales (MMbbls)		40.4		40.4
Revenues, net of crude oil purchases and transportation		3,188		3,188
Operating costs		1,487		1,487
Operating costs per barrel		36.79		36.79
Crown royalties		181		181
Capital expenditures		927		927
Cash from operating activities		1,256		1,316
Business environment assumptions				
West Texas Intermediate (US$/bbl)	$	80	$	80
Premium (Discount) to average C$ WTI prices (C$/bbl)	$	(2.75)	$	(2.75)
Foreign exchange rate (US$/Cdn$)	$	0.98	$	0.98
AECO natural gas (Cdn$/GJ)	$	4.00	$	4.00

In its January 27, 2011 Outlook, 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 US$80 per barrel WTI crude oil price, a $0.98 U.S./Cdn foreign exchange rate, and an 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 due to 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, COS 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 benchmarks.

2011 Outlook Sensitivity Analysis (January 27, 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.

CANADIAN OIL SANDS LIMITED

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(unaudited)

($ millions, except per Share amounts)	Three Months Ended December 31 2010	Three Months Ended December 31 2009	Twelve Months Ended December 31 2010	Twelve Months Ended December 31 2009
Revenues	$ 936	$ 895	$ 3,460	$ 2,779
Expenses:				
Operating	394	331	1,439	1,328
Non-production	24	35	105	141
Crude oil purchases and transportation	24	32	280	164
Crown royalties (Note 11)	75	93	306	228
Administration	6	6	23	24
Insurance	1	3	11	9
Interest, net (Note 7)	21	23	91	93
Depreciation, depletion and accretion (Note 2)	88	260	380	570
Loss on disposal of assets	18	-	28	-
Goodwill impairment	-	52	-	52
Foreign exchange gain	(35)	(23)	(60)	(161)
	616	812	2,603	2,448
Earnings before taxes	320	83	857	331
Future income tax expense (recovery)	9	(13)	(29)	(101)
Net income	311	96	886	432
Other comprehensive loss, net of income taxes				
Reclassification of derivative gains to net income	(1)	(1)	(3)	(3)
Comprehensive income	$ 310	$ 95	$ 883	$ 429
Weighted average shares (millions)	484	484	484	484
Shares, end of period (millions)	484	484	484	484
Net income per share:				
Basic and diluted	$ 0.64	$ 0.20	$ 1.83	$ 0.89

See Notes to Unaudited Consolidated Financial Statements

CANADIAN OIL SANDS LIMITED

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(unaudited)

	Three Months Ended December 31		Twelve Months Ended December 31	
($ millions)	**2010**	**2009**	**2010**	**2009**
Retained earnings				
Balance, beginning of period	$ 1,280	$ 1,432	$ 1,359	$ 1,362
Net income	311	96	886	432
Unitholder distributions (Note 9)	(242)	(169)	(896)	(435)
Balance, end of period	1,349	1,359	1,349	1,359
Accumulated other comprehensive income				
Balance, beginning of period	16	19	18	21
Other comprehensive loss	(1)	(1)	(3)	(3)
Balance, end of period	15	18	15	18
Unitholders' capital				
Balance, beginning of period	2,587	2,587	2,587	2,524
Issuance of shares	-	-	-	63
Common shares issued in exchange for Trust Units	(2,587)	-	(2,587)	-
Balance, end of period	-	2,587	-	2,587
Shareholders' capital				
Balance, beginning of period	-	-	-	-
Common shares issued in exchange for Trust Units	2,587	-	2,587	-
Balance, end of period	2,587	-	2,587	-
Contributed surplus				
Balance, beginning of period	7	5	5	3
Stock-based compensation (Note 8)	-	-	2	2
Balance, end of period	7	5	7	5
Total Shareholders' equity	$ 3,958	$ 3,969	$ 3,958	$ 3,969

See Notes to Unaudited Consolidated Financial Statements

CANADIAN OIL SANDS LIMITED
CONSOLIDATED BALANCE SHEETS
AS AT
(unaudited)

($ millions)	December 31 2010	December 31 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 80	$ 122
Accounts receivable	379	354
Inventories	129	133
Prepaid expenses	6	7
	594	616
Property, plant and equipment, net (Note 2)	6,369	6,289
Reclamation trust	53	48
	$ 7,016	$ 6,953
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 405	$ 284
Current portion of employee future benefits (Note 4)	51	17
	456	301
Employee future benefits and other liabilities (Note 4)	67	104
Long-term debt	1,251	1,163
Asset retirement obligation (Note 6)	286	389
Future income taxes	998	1,027
	3,058	2,984
Shareholders' equity	3,958	3,969
	$ 7,016	$ 6,953

See Notes to Unaudited Consolidated Financial Statements

CANADIAN OIL SANDS LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

($ millions)	Three Months Ended December 31 2010	Three Months Ended December 31 2009	Twelve Months Ended December 31 2010	Twelve Months Ended December 31 2009
Cash from (used in) operating activities				
Net income	$ 311	$ 96	$ 886	$ 432
Items not requiring outlay of cash:				
Depreciation, depletion and accretion (Note 2)	88	260	380	570
Loss on disposal of assets	18	-	28	-
Goodwill impairment	-	52	-	52
Foreign exchange gain on long-term debt	(39)	(28)	(58)	(200)
Future income tax expense (recovery)	9	(13)	(29)	(101)
Actual reclamation costs	(17)	(2)	(48)	(25)
Change in employee future benefits and other liabilities	2	1	(3)	26
	372	366	1,156	754
Change in non-cash working capital	(150)	(38)	63	(207)
Cash from operating activities	222	328	1,219	547
Cash from (used in) financing activities				
Issuance of Senior Notes	-	-	-	574
Repayment of medium term and Senior Notes	-	-	-	(471)
Net drawdown of bank credit facilities	145	-	145	-
Distributions (Note 9)	(242)	(169)	(896)	(372)
Cash used in financing activities	(97)	(169)	(751)	(269)
Cash from (used in) investing activities				
Capital expenditures	(163)	(101)	(506)	(409)
Reclamation trust funding	(1)	(2)	(5)	(5)
Change in non-cash working capital	(8)	(8)	1	(2)
Cash used in investing activities	(172)	(111)	(510)	(416)
Foreign exchange loss on Cash and cash equivalents held in foreign currency	-	-	-	(19)
Increase (decrease) in cash and cash equivalents	(47)	48	(42)	(157)
Cash and cash equivalents at beginning of period	127	74	122	279
Cash and cash equivalents at end of period	$ 80	$ 122	$ 80	$ 122
Cash and cash equivalents consist of:				
Cash			$ 52	$ 18
Short-term investments			28	104
			$ 80	$ 122

Supplementary Information (Note 12)

See Notes to Unaudited Consolidated Financial Statements

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND TWELVE MONTHS ENDED DECEMBER 31, 2010
(Tabular amounts expressed in millions of Canadian dollars, except where otherwise noted.)

1) BASIS OF PRESENTATION

The interim consolidated financial statements include the accounts of Canadian Oil Sands Limited (the "Corporation") and its subsidiaries and partnerships (collectively "Canadian Oil Sands"), and are presented in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). The financial statements 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 post-Corporate 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. The interim statements have been prepared following the same accounting policies and methods of computation as the Trust's consolidated financial statements for the year ended December 31, 2009, except as discussed in Note 2. Certain disclosures that are normally required to be included in the notes to the annual audited consolidated financial statements have been condensed or omitted. The interim consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto in the Trust's annual report for the year ended December 31, 2009.

2) 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 three and twelve months ended December 31, 2010 is that approximately $38 million and $88 million less depreciation, respectively, 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.

3) FUTURE CHANGES IN ACCOUNTING POLICIES

The Corporation will be subject to International Financial Reporting Standards ("IFRS") commencing in 2011. Canadian Oil Sands has assessed the impact that conversion to IFRS may have on its financial statements, however, finalization of amounts will not be completed until the year ended 2011.

4) EMPLOYEE FUTURE BENEFITS

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

Canadian Oil Sands accrues its obligations as a joint venture owner in respect of Syncrude Canada's employee benefit plans and the related costs, net of plan assets. The cost of employee pension and OPEB is actuarially determined using the projected benefit method based on length of service and reflects Canadian Oil Sands' 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 and fair value of the plan assets is amortized over the EARSL.

Canadian Oil Sands' share of Syncrude Canada's net defined benefit and contribution plans expense for the three and twelve months ended December 31, 2010 and 2009 is based on its 36.74 per cent working interest. The costs have been recorded in operating expense as follows:

	Three Months Ended December 31		Twelve Months Ended December 31	
	2010	2009	2010	2009
Defined benefit plans:				
Pension benefits	$ 13	$ 12	$ 42	$ 40
Other benefit plans	1	1	2	4
	$ 14	$ 13	$ 44	$ 44
Defined contribution plans	1	1	3	3
Total benefit cost	$ 15	$ 14	$ 47	$ 47

At December 31, 2010, the accrued benefit liability was $85 million (December 31, 2009 - $115 million). An April 2010 actuarial valuation on Syncrude's pension plans resulted in 2010 funding requirements which totaled $74 million net to Canadian Oil Sands. The Corporation's share of the estimated unfunded portion of the pension and OPEB plans at December 31, 2010 was $327 million (December 31, 2009 - $281 million). As Canadian Oil Sands applies the "corridor method" of pension accounting, $242 million of the unfunded balance has not been recognized in the accrued benefit liability, within employee future benefits liabilities on the Consolidated Balance Sheets, and is being deferred and amortized over the expected average remaining service life of active employees.

5) BANK CREDIT FACILITIES

Extendible revolving term facility (a)	$ 40
Line of credit (b)	100
Operating credit facility (c)	800
	$ 940

Each of the Corporation's credit facilities is unsecured. These credit agreements contain covenants restricting 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) The $40 million extendible revolving term facility is a 364-day facility with a one-year term out, expiring April 21, 2011. This facility may be extended on an annual basis with the agreement of the bank. Amounts borrowed through this facility bear interest at a floating rate based on bankers' acceptances plus a credit spread, while any unused amounts are subject to standby fees. As at December 31, 2010, no amounts were drawn on this facility ($nil – December 31, 2009).

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

Letters of credit of approximately $75 million were written against the line of credit as at December 31, 2010.

c) 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).

6) 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 the Syncrude properties.

		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 period		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 settlement of liabilities during the year as well as deferral of 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 it's 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).

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 participants.

7) INTEREST, NET

($ millions)	Three Months Ended December 31 2010	2009	Twelve Months Ended December 31 2010	2009
Interest expense on long-term debt	$ 22	$ 23	$ 92	$ 94
Interest income and other	(1)	-	(1)	(1)
Interest expense, net	$ 21	$ 23	$ 91	$ 93

8) STOCK-BASED COMPENSATION

During 2010, 388,448 options were issued by the Trust to employees with an average exercise price of $28.20 pursuant to the Trust's Unit Incentive Option Plan. These options had an estimated value of $2 million at the time of issue. Pursuant to the corporate conversion on December 31, 2010, all outstanding options issued under the Trust's Unit Incentive Option Plan were converted to the Corporation's Transition Option Plan. The plan is substantially the same except that each option issued can be exercised for Shares instead of Trust Units.

9) UNITHOLDER DISTRIBUTIONS PRIOR TO CORPORATE CONVERSION

Pursuant to the Trust Indenture in effect until December 30, 2010, the Trust distributed all the Distributable Income, as defined by the Trust Indenture, 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.

	Three Months Ended December 31 2010	2009	Twelve Months Ended December 31 2010	2009
Cash from operating activities	$ 222	$ 328	$ 1,219	$ 547
Add (Deduct):				
Capital expenditures	(163)	(101)	(506)	(409)
Change in non-cash working capital [1]	(8)	(8)	1	(2)
Reclamation trust funding	(1)	(2)	(5)	(5)
Change in cash and cash equivalents and financing, net [2]	192	(48)	187	304
Unitholder distributions	$ 242	$ 169	$ 896	$ 435
Unitholder distributions per Trust Unit	**$ 0.50**	**$ 0.35**	**$ 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.*

10) COMMITMENTS

During April 2010, an actuarial valuation of the pension obligation as at December 31, 2009 was completed. This resulted in additional funding requirements over the next 24 years of approximately $265 million, with the majority of the funding requirements due within the next five years.

11) CONTINGENCY

Crown royalties for 2010 include amounts due under the Syncrude Royalty Amending Agreement with the Alberta government. This 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.

12) SUPPLEMENTARY INFORMATION

	Three Months Ended December 31		Twelve Months Ended December 31	
	2010	**2009**	**2010**	**2009**
Income tax paid	$ -	$ -	-	$ -
Interest paid	$ 23	$ 24	91	$ 92

13) PRIOR PERIOD COMPARATIVES

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

Canadian Oil Sands Limited
Marcel Coutu
President & Chief Executive Officer

Shares Listed – Symbol: COS
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