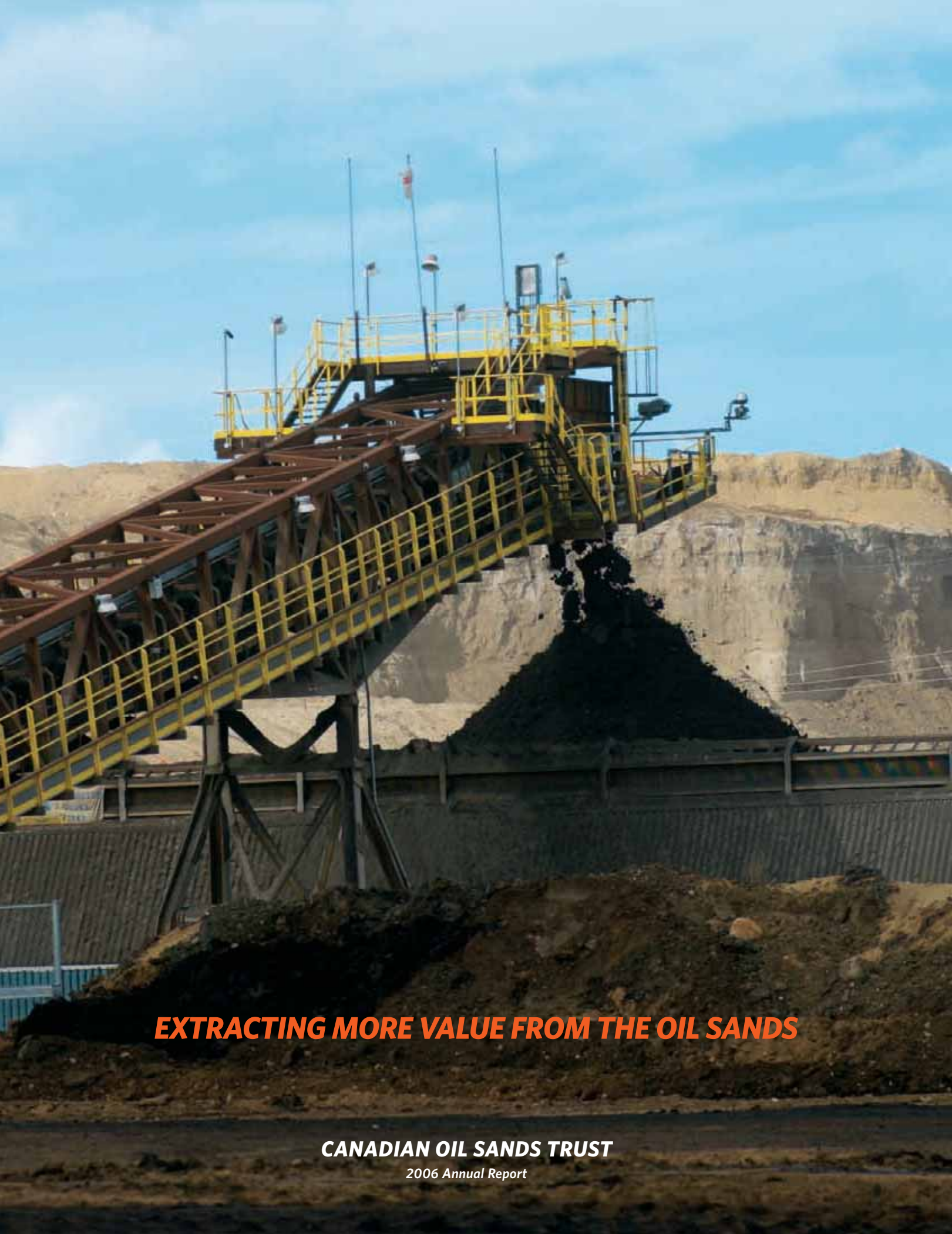


EXTRACTING MORE VALUE FROM THE OIL SANDS

CANADIAN OIL SANDS TRUST

2006 Annual Report

ADVISORY *- in the interest of providing Unitholders and potential investors of Canadian Oil Sands Trust (the "Trust" or "Canadian Oil Sands") with information regarding the Trust, including management's assessment of the Trust's future production and cost estimates, plans and operations, certain statements throughout this annual report contain "forward-looking statements" under applicable securities law. Forward-looking statements in this annual report include, but are not limited to, statements with respect to: the expected improvement in energy efficiency once Stage 3 is lined-out, the expected benefits from Stage 3 and the productive capacity that can be achieved in the future; the expected timing to fix the design issues around the hyrdrogen plant and the timing to produce SSP; the expected growth opportunities that the Trust has through its expansion of the current interest in Syncrude or through external opportunities; the extent and value of Syncrude s reserves and resources; the quality of Syncrude s leases and bitumen in place in those leases; the ability to improve the base operations at Syncrude, including without limitation the expected benefits to be realized from the Management Services Agreement between Syncrude Canada Ltd. and Imperial Oil Resources; future increases if any in distributions; the ability to mitigate and prevent operational risks such as dyke failures, explosions in upgrading units or other similar events; the anticipated impact of proposed changes in federal tax legislation on income trusts; the impact of labour shortages and pipeline constraints on the Trust and its realized selling price for crude oil; the need for future hedging; the return anticipated from sales of Syncrude Sweet Premium; the expected price for crude oil and natural gas in 2007; the expected reduction in sulphur emissions from the Syncrude Emissions Reduction project; the actual taxes paid in the future by Canadian Oil Sands; the expected production level at Syncrude in 2007; the expected timing and associated production impact of coker and other unit turnarounds; the expected revenues, operating costs and cash from operating activities for 2007; the anticipated impact that certain factors such as natural gas and oil prices, foreign exchange and operating costs have on the Trust's cash from operating activities and net income; and the expected capital expenditures in 2007 and beyond. You are cautioned not to place undue reliance on forward-looking statements, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will not occur. Although the Trust believes that the expectations represented by such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. Some of the risks and other factors which could cause results to differ materially from those expressed in the forward-looking statements contained in this annual report include, but are not limited to: labour shortages and the productivity achieved from labour in the Fort McMurray area; the impact of technology on operations and processes and how new complex technology may not perform as expected; the supply and demand metrics for oil and natural gas; the impact of governmental or regulatory changes, general economic, business and market conditions; and such other risks and uncertainties described from time to time in the reports and filings made with securities regulatory authorities by the Trust, including those outlined in the management's discussion and analysis in this annual report and the assumptions outlined in the guidance for 2007 being true. You are cautioned that the foregoing list of important factors is not exhaustive. Furthermore, the forward-looking statements contained in this annual report are made as of the date of this annual report and unless required by law, the Trust does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise. The forward-looking statements contained in this annual report are expressly qualified by this cautionary statement. Unless otherwise specified, all dollar amounts are expressed in Canadian dollars, all references to dollars" or "$" are to Canadian dollars and all references to "US$" are to United States dollars.*

NON-GAAP FINANCIAL MEASURES

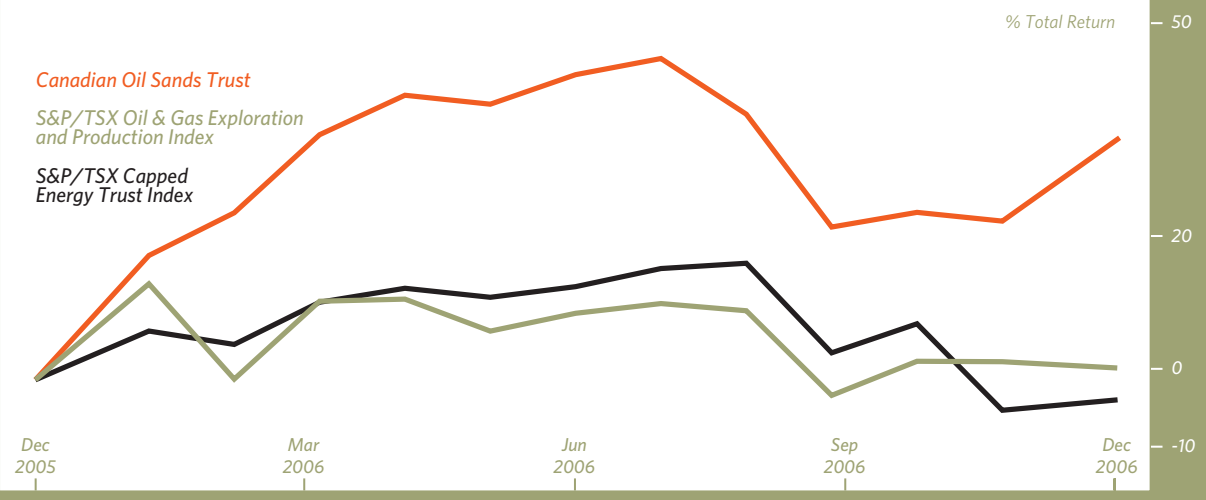
In this annual report, we refer to net income before unrealized foreign exchange and future income taxes. This is a measurement that is not defined by Canadian generally accepted accounting principles ("GAAP"). The Trust also reports funds from operations, free cash flow and Unitholder distributions on both a total and per Unit basis as well as cash from operating activities per Unit, which are all measures that do not have any standardized meaning under Canadian GAAP. Funds from operations are calculated on the Trust's consolidated statement of cash flows as cash from operating activities before changes in operating non-cash working capital. Free cash flow is calculated as cash from operating activities less capital expenditures and reclamation trust contributions in the period. The net income before unrealized foreign exchange and future income taxes and the Trust's funds from operations and free cash flow may not be directly comparable to similar measures presented by other companies or trusts.

CANADIAN OIL SANDS TRUST *provides a* ***PURE INVESTMENT*** *opportunity in the oil sands through its 36.74% working interest in the Syncrude Project. Located near Fort McMurray, Alberta, Syncrude operates large oil sands mines and an upgrading facility that produces a light, sweet crude oil.*

Canadian Oil Sands Trust seeks to optimize value for our Unitholders through effective stewardship of our Syncrude operations, the pursuit of compatible growth opportunities, prudent financial management and providing accurate and timely disclosure to our investors.

We are based in Calgary, Alberta and listed on the Toronto Stock Exchange under the symbol COS.UN.

TOTAL SHAREHOLDER RETURNS 2006

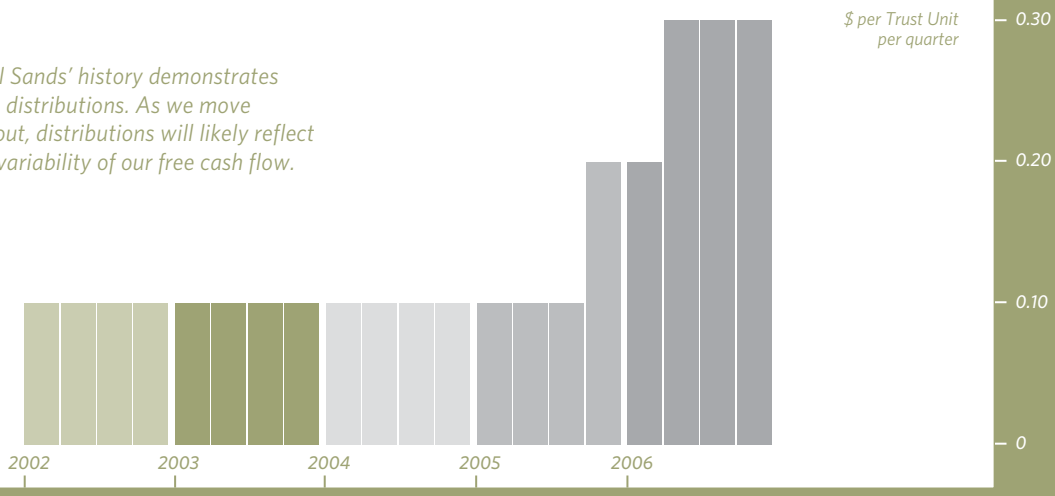


ANNUAL PRODUCTION PER 1,000 TRUST UNITS

Through expansion and acquisitions, productive capacity per Canadian Oil Sands' Unit has increased. Where 1,000 Units held in 2005 entitled an investor to the economic benefit of 60 barrels of production, this number should grow to 100 barrels by the time Syncrude achieves Stage 3 design capacity.

DISTRIBUTION PER TRUST UNIT

Canadian Oil Sands' history demonstrates stable, rising distributions. As we move to fuller payout, distributions will likely reflect some of the variability of our free cash flow.



	2006	2005	% change
financial *($ millions, except per Unit amounts)*			
Revenues, after crude oil purchases, transportation and marketing expense	**2,432**	1,967	24
Net Income	**834**	831	0
Per Unit – Basic	**1.79**	1.81	-1
Per Unit – Diluted	**1.78**	1.80	-1
Cash from operating activities	**1,142**	949	20
Per Unit	**2.45**	2.07	18
Unitholder distributions	**512**	184	178
Per Unit	**1.10**	0.40	175
ratios			
Net debt to cash from operating activities *(times)*	**1.1**	1.7	
Net debt to total capitalization *(%)*	**25**	33	
Return on average Unitholder's equity *(%)*	**23**	28	
Return on average productive capital employed *(%)*	**24**	37	
operations			
Sales volumes, net of crude oil purchases			
Total *(MMbbls)*	**33.5**	27.7	21
Daily average *(bbls)*	**91,844**	75,994	21
Operating costs *($/bbl)*	**27.07**	26.34	3
Capital expenditures *($ millions)*	**300**	800	-63
Net realized selling price *($/bbl)*	**72.56**	70.91	2
West Texas Intermediate *(US$/bbl)*	**66.25**	56.70	17
Average foreign exchange rate *(US$/Cdn$)*	**0.88**	0.83	6
unit information			
Closing price on December 31 *($/Unit)*	**32.61**	25.20	29
Weighted-average Units *(millions)*	**466**	459	2

Dear Unitholder,

It certainly has been a pivotal year for Canadian Oil Sands Trust. In 2006, the largest expansion in our history came on stream, our production rose 21% from 2005 and we reported strong financial results and industry-leading returns. We now have the infrastructure in place to produce about 129,000 barrels per day (net to the Trust) and our capital costs are declining, positioning us to optimize Unitholder value over the long-term.

I am very encouraged by the prospects for our Trust and the oil sands industry.

Canada's oil sands remained in the spotlight in 2006. The opportunity to access vast, long-life reserves in an economically and politically stable region of the world, combined with strong crude oil prices, continued to attract investment.

However, the aggressive projections for growth – expectations by 2020 that the oil sands industry will have invested $100 billion and be producing four million barrels of crude oil per day – can raise some challenges. A limited supply of skilled labour can make it difficult to complete projects on time and on budget. As well, the regional infrastructure needs continuous support to ensure it can meet the growing demand for services in order to realize the full potential of the oil sands. But perhaps the issue that is getting the most attention recently is the environmental implications of oil sands development.

I believe the oil sands sector will work through these challenges to capitalize on its ability to be a growing, long-term source of energy for ever-rising global demand. The companies best positioned to succeed, however, will need to demonstrate these key attributes: a quality resource, expanded infrastructure, and experienced operatorship.

We believe Syncrude leads in all of these areas and this report explores the opportunities and challenges ahead of us, and how we intend to continue to be an oil sands industry leader.

Syncrude has the key attributes for oil sands success:

A QUALITY RESOURCE

EXPANDED INFRASTRUCTURE

EXPERIENCED OPERATORSHIP

Expanding operations

Our Syncrude operations achieved a major milestone last year with the completion of the Stage 3 expansion. I very much appreciate the hard work of Syncrude's employees and contractors who helped to design, construct and implement this facility. A major and challenging undertaking of this kind demanded the best efforts of all those involved.

While the project incurred a substantial cost overrun and completion delay, we have nonetheless added productive capacity for about $85,000 per daily barrel. This includes spending beyond adding incremental capacity, such as the improvement in product quality and pre-investment in future growth. It would be very difficult to add production for that amount today, given the current cost environment.

Stage 3 expands Syncrude's productive capacity to average 350,000 barrels per day from the previous 250,000 barrels per day. We began to record incremental production from the project on August 30, 2006 and now Syncrude is focusing on reaching design as quickly as possible. We expect it will take time to ramp up to full design as we stabilize the operation of this new facility and achieve optimum performance from the various units.

The Stage 3 project also helped to improve our environmental performance by reducing total sulphur dioxide emissions, even though we increased our productive capacity by about 100,000 barrels per day. Further investment in sulphur scrubbing technology should result late this decade in a 60% reduction in sulphur dioxide emissions from today's approved levels.

Optimizing operations

With our newly expanded and modernized infrastructure in place, Syncrude can return its focus to maintaining reliable operations. Reliability is the key to our business, which is essentially a manufacturing operation – the costs are largely fixed so increases in volumes contribute to lower unit operating costs and higher margins.

The Management Services Agreement between Imperial Oil Resources and Syncrude Canada Ltd. forges a relationship that is expected to deliver enhanced performance and efficiency of operations, as well as renew a commitment to the growth plans of the Syncrude project.

To support Syncrude in its efforts to optimize performance, a Management Services Agreement between Imperial Oil Resources and Syncrude Canada Ltd. was signed in November 2006. This long-term agreement provides Syncrude, as operator, access to the global expertise and resources of Imperial Oil Resources and its association with ExxonMobil. I share the confidence of Syncrude and the other Joint Venture Owners that this initiative has the potential to provide dramatic bottom line results.

Building long-life, strategic resource assets

With a reinforced confidence in Syncrude's future, we were pleased to grow our ownership in the project by acquiring Talisman Energy Inc.'s ("Talisman") 1.25% indirect interest in January 2007. This acquisition provided accretion of about 2% in production and reserves per Unit and with Talisman taking half of the purchase price in equity units, our balance sheet ratios remained relatively unchanged.

In 2006 we also acquired another strategic long-term asset. The purchase of Canada Southern Petroleum Ltd., although a relatively small financial transaction, has tremendous upside potential and limited downside. The purchase provides Canadian Oil Sands with interests in an estimated 927 billion cubic feet equivalent of natural gas resource in Canada's Arctic Islands. These interests do not have any exploration obligations or lease renewals associated with them, and with the majority being "carried", very limited requirement to contribute to any field development costs. Given that natural gas is a significant cost in our Syncrude operations, this acquisition acts like a financial hedge to provide protection against significant future natural gas price increases.

Our financial plan going forward

Canadian Oil Sands has revised its financial plan to consider the federal government's proposed tax changes for income trusts. The current proposed changes call for taxation of income at the trust level, essentially removing the previous tax efficiency and reducing the amount directly available for distribution to Unitholders.

In order to allow us to accelerate fuller payout of free cash flow until the new tax rules take effect in 2011, we have revised our net debt target to $1.6 billion from $1.2 billion. We remain committed to our objective of fuller payout of free cash flow now that we have reached our net debt target, unless investment growth opportunities exist that offer Unitholders better value. Naturally, investors also should appreciate that, at this fuller payout, distributions will likely reflect the variability of our free cash flow, due to volatility in global crude oil prices and other factors.

We feel the income trust structure is beneficial to the Canadian economy and are very disappointed by the government's plans to eliminate it. Our investors, however, should take comfort that we are not dependent on the trust structure to sustain our business. We are a robust oil sands business with long-life reserves and a virtually non-declining production profile.

We continue to express our concerns and objections to the federal government regarding the proposed income trust tax changes. Working with organizations such as the Canadian Coalition of Energy Trusts and the Canadian Association of Income Funds, we are seeking a better solution that preserves this investment choice for Canadians. A new organization also was formed in late 2006 to provide a voice for individual investors called the Canadian Association of Income Trust Investors. I would encourage you to learn more about CAITI and become a member by visiting their website at www.caiti.info.

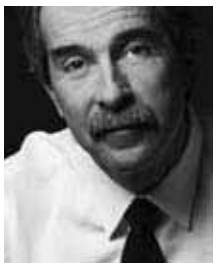
In January 2007, the House of Commons Finance Committee held two days of hearings to explore both ends of the debate on income trust taxation. I believe the most compelling point was made by HLB Decision Economics who, using the same methodology as the Finance Department, provided data that largely refuted the Finance Minister's figures regarding tax loss. We are hopeful that, as the weakness of the federal government's case is exposed, the proposed legislation will at least be modified to more reasonable terms, such as that being proposed by the Liberal Opposition for a lower 10% tax.

Frankly, a more logical outcome should include an immediate exemption of energy trusts, given their much stronger contributions to federal tax revenue, as was enunciated during the Finance Committee deliberations.

Financial and operating results

Canadian Oil Sands recorded healthy financial results in 2006, reflecting our unhedged exposure to strong crude oil prices and the uplift in our production from the start-up of our Stage 3 expansion. Cash from operating activities grew 20% from 2005, exceeding $1.1 billion, and net income reached $834 million.

We also provided our investors with excellent returns in 2006. We introduced a 50% increase in the quarterly distribution amount early in the year and, together with the appreciation in our Unit price, our investors enjoyed a total return of about 34% - outperforming our oil sands peers. In 2006 we also split our Units five for one, making the



MARCEL R. COUTU
President and Chief Executive Officer

purchase of Canadian Oil Sands Units more accessible to smaller investors. In addition, Canadian Oil Sands Trust was added to the S&P/TSX 60 and the Morgan Stanley Capital International indices, increasing our importance to institutional investors and, potentially further improving liquidity.

In recognition of our outstanding financial and industry performance, Platts, a worldwide provider of energy information, named Canadian Oil Sands Trust one of the Top 250 Global Energy Companies in 2006.

We also continue to take a rigorous approach to risk management. A comprehensive insurance program is in place to help protect our assets and cash flow. We believe one of our key investment attributes is our exposure to long-term crude oil prices and therefore, at this time, we intend to remain unhedged. We strive to demonstrate best practices in reporting and disclosure. In addition to complying with CEO/CFO certification requirements relating to disclosure controls and design of internal control over financial reporting, Canadian Oil Sands evaluated the effectiveness of internal control over financial reporting. Our evaluation concluded that such controls are effective in providing reasonable assurance regarding the reliability of our financial reporting, which was attested to by PricewaterhouseCoopers, our external auditors.

Syncrude has long been recognized as an economic, environmental and social leader, and in the past year, they again received external confirmation of this when Canadian Oil Sands Trust was added to the Jantzi Social Index.

At the operating level, there are obviously other risks that need to be managed and Syncrude has proven capability in that regard. Syncrude has long been recognized as an economic, environmental and social leader, and in the past year, they again received external confirmation of this when Canadian Oil Sands Trust was added to the Jantzi Social Index. We were added because of Syncrude's strong performance in several key areas, most notably environment, health and safety, and aboriginal relations. More information on this performance can be found in Syncrude's sustainability report available at www.syncrude.ca.

Outstanding team performance

I am proud of the tangible results the Canadian Oil Sands team delivered yet again in 2006. This dedicated team of only 19 people worked tirelessly to enhance investor returns by making disciplined investment decisions, exercising prudent financial management and capturing new opportunities to build long-term value. This approach has enabled us to successfully deliver on the many objectives we set out last year (see page 10 of this report).

The Canadian Oil Sands team underwent some fundamental changes in 2006. We hired five professionals to form our new marketing group, and they quickly set upon the task of establishing our own crude oil marketing function – from the ground up. Today, they are successfully putting a face to Canadian Oil Sands for our largest refinery customers. They also play a critical role in helping our customers understand the attributes of our high-quality product and our ability to deliver large volumes. This will be of particular importance as we expect to transition to Syncrude™ Sweet Premium later this year.

On the executive front, Ryan Kubik will be promoted to Chief Financial Officer when Allen Hagerman transitions to a part-time function as Executive Vice President, effective April 25, 2007. I am deeply grateful to Allen for his dedication to the Trust, and pleased that he will have the opportunity to now pursue his other interests while still allowing us to benefit from his strong leadership. At the same time, I am very much looking forward to working with Ryan in his new capacity. Ryan has been a proven member of our executive team since 2002 and has the financial acumen and industry knowledge to make a significant contribution in his new role.

Canadian Oil Sands Trust benefits from a very strong, cohesive board of directors who demonstrate some of the highest standards of corporate governance. Our corporate governance practices are described more fully in our 2007 management proxy circular and on our website at: www.cos-trust.com/corporate.

Our board's broad experience in the capital markets and the energy industry was further strengthened in 2006 with the appointment of Mr. Brant Sangster. Brant was previously responsible for Petro-Canada's oil sands division and brings to the Board a strong understanding of the Syncrude project through his past participation on the Syncrude Management Committee, as well as in-depth knowledge of the oil sands and downstream refining industries.

Effective April 25, 2007, one of our longest-standing board members will be retiring. Mr. Walter O'Donoghue has been a key member of our board since 1995, and served as Board Chairman of one of the two predecessor trusts for five years prior to their merger in 2001. His keen insight and direction have shaped much of our success over the years. I am very thankful to him for his contribution to the Trust and his mentorship, and wish him the best in his retirement.

Finally, I would like to thank you – our investors – for your support. We have seen crude oil prices decrease from the levels reached in 2006, which I believe has contributed to the decline in our Unit price since the beginning of this year and leaves us more vulnerable in our ability to increase distributions. Our view is that over the long-term, which is the horizon of our investment opportunity, crude oil prices should be robust, given the tight supply and demand fundamentals and the projections for continued demand growth. As such, I share your appreciation for the long-term value of our business and seek to maintain your confidence by protecting and enhancing that value. I believe you have a talented team dedicated to that mission, which together with our superior asset base, will enable us to continue to provide long-term value.

*I share your appreciation for the long term value of our business and seek to maintain your confidence by **PROTECTING** and **ENHANCING** that **VALUE**.*

Marcel R. Coutu
President and CEO
February 22, 2007

OUR OBJECTIVES *We set seven objectives for performance last year...*	2006 PERFORMANCE *... here is how we did*
1. *To successfully bring the Stage 3 expansion on-line and achieve full design capacity as quickly as possible*	▪ *The Stage 3 expansion was brought on-line at the end of August 2006. High volume levels have already been achieved over short periods and we now are working toward more stable performance.* ▪ *The project was completed about one year behind schedule and the approximate $8.55 billion total cost exceeded the initial $4.1 billion estimate provided in 2001.*
2. *To improve the reliability and performance of our operations*	▪ *Approved, as part of the Syncrude Joint Venture owners group, a Management Services Agreement to enhance Syncrude performance through implementation of Imperial Oil Resources/ExxonMobil global best practices and access to talent.*
3. *To continue to broaden our active role in the stewardship of our Syncrude asset*	▪ *Played a key role in the negotiations that resulted in the Management Services Agreement between Imperial Oil Resources and Syncrude Canada Ltd.* ▪ *Began marketing our Syncrude production, developing direct relationships with our customers.*
4. *To strengthen our balance sheet*	▪ *Net debt to total capitalization decreased to 25% compared to 33% at 2005 year end.* ▪ *Net debt decreased to $1.3 billion at 2006 year end from $1.6 billion in 2005 (net debt target revised to $1.6 billion in response to proposed income trust tax changes).*
5. *To pursue our growth strategies*	▪ *Acquired Canada Southern Petroleum Ltd. for $223 million, securing an estimated 927 billion cubic feet equivalent of natural gas resource for a net cost of about $0.20 per thousand cubic feet.* ▪ *Purchased Talisman's 1.25% interest in Syncrude for $475 million.*
6. *To grow cash distributions*	▪ *Increased quarterly distribution amounts by 50% to $0.30 per Unit from $0.20 per Unit in early 2006.*
7. *To continue to represent Canada's trust sector*	▪ *Communicated our concerns and recommendations regarding the federal government's proposed tax changes to income trusts.* ▪ *Actively participated in the Canadian Association of Income Funds' discussion on distributable cash disclosure and sustainability.*

PLANNED PROGRESS

... we continue to focus on these key areas...

Operations

We are working with Syncrude Canada and the other Joint Venture owners to enhance the reliability and performance of Syncrude operations. We expect that the Management Services Agreement is an important step, enabling Syncrude to benefit from the global best practices, technology and expertise of Imperial Oil Resources and ExxonMobil.

The priority is to stabilize operations following our Stage 3 expansion, and to achieve Stage 3 design capacity of 128 million barrels annually to Syncrude. We expect it will take time to ramp up to full rates as we optimize the performance of new operating units. We currently are working to unlock constrained production from Coker 8-3. During 2007, we anticipate production to be about 85% of full design capacity, totaling 110 million barrels gross to Syncrude.

In 2007, we plan on transitioning production to the higher Syncrude™ Sweet Premium quality level through a planned modification of a hydrogen plant in the fall. We also are working to identify a solution to use on-site produced ammonia in the operation of our flue gas desulphurizer.

Distributions

Canadian Oil Sands remains committed to its previously stated objective of approaching fuller payout of free cash flow once we reach our net debt target, unless capital investment growth opportunities exist that offer Unitholders better value.

In late 2006, we raised our net debt target to $1.6 billion to accelerate fuller payout of free cash flow, allowing the Trust to optimize distributions prior to the proposed income trust tax changes taking effect.

Distributions are expected to reflect some of the variability of free cash flow once we approach fuller payout; they will be determined quarterly by the board of directors in light of current and expected economic and operating conditions, and with the objective of maintaining an investment grade credit rating and ensuring financing capacity for Syncrude's expansion projects and/or acquisitions.

Our long reserve life provides the potential to generate substantial free cash flow and a solid foundation for sustainable distributions over the long-term.

Growth

We plan to continue to grow responsibly. We have an excellent resource base through our Syncrude interest that can support further increases in productive capacity. Current plans call for productive capacity to grow to about 184,000 barrels per day, based on our 36.74% interest, late in the next decade.

We also will continue to evaluate opportunities to acquire additional oil sands interests. Our preference would be to increase our Syncrude ownership; however, we would consider other opportunities along the oil sands business chain, from reserves to downstream refining assets.

Above all, we aim to be prudent in our decision-making and to maximize the value for our investors.

Competitive environment

We will continue to represent Canada's energy and trust sector to maintain a competitive regulatory environment.

In early 2007, we helped lead the formation of the Canadian Association of Income Trust Investors whose mission is to preserve the ongoing viability and sustainability of the Canadian income trust market.

We plan to continue to steward our Syncrude operations with a view to developing this resource in an environmentally and socially responsible manner. As well, we recognize our obligation to educate the public and various stakeholders on Syncrude's sustainability practices.

HOW WE MEASURED UP

	2006 Outlook (as at Feb. 22, 2006)	*2006 Actual*	*2007 Outlook*
Sales *(MMbbls net to COS)*	34 – 39	33.5	39 – 44
Operating costs *($/bbl)*	$ 25.88	$ 27.07	$ 25.83
Cash from operating activities *($/unit)*	$ 2.08	$ 2.45	$ 1.79
Free cash flow *($/unit)*	$ 1.42	$ 1.78	$ 1.25
Capital expenditures *($ millions)*	$ 303	$ 300	$ 255
Assumptions:			
WTI crude oil price *(US$/bbl)*	$ 55.00	$ 66.25	$ 55.00
Differential to Cdn$ WTI *(Cdn$/bbl)*	$ (1.50)	$ (2.57)	$ (4.00)
AECO natural gas *(Cdn$/GJ)*	$ 10.78	$ 6.26	$ 7.50
Foreign exchange rate *(US$/Cdn$)*	$ 0.85	$ 0.88	$ 0.88

1 *Adjusted for 5:1 Unit split.*

2 *Changes in certain factors and market conditions could potentially impact this Outlook. In particular, cash from operating activities and free cash flow are highly sensitive to crude oil prices; in 2007, every US$1.00 per barrel change in the WTI crude oil price impacts cash from operating activities and free cash flow by $0.07 per Unit. A sensitivity analysis of the key factors affecting the Trust's Outlook is provided in its January 29, 2007 Guidance Document, which is available on the Trust's website at: www.cos-trust.com/investor/guidance. The Trust expects to revise its Outlook throughout the year, generally on a quarterly basis.*

3 *For 2007 and beyond, Canadian Oil Sands is focusing on cash from operating activities (per the Trust's Consolidated Statements of Cash Flows) as our measure of the Trust's ability to generate cash from operations. Previously, Canadian Oil Sands reported funds from operations, which did not include changes in non-cash working capital from operating activities. Cash from operating activities provides similar information to funds from operations and has better comparability to other reporting entities as it is a GAAP measure.*

CANADIAN OIL SANDS *is a relatively small organization with an important mandate. A total of 19 people manage the only* ***PURE INVESTMENT*** *opportunity in Syncrude, the largest oil sands project in the world.*

Canadian Oil Sands has a small team with a long-term view. Late last year, several members of the team met to discuss the outlook for 2007 and beyond, the Trust's challenges and opportunities and the strategies to ensure continued success. Here is what was discussed.

1.0 WHAT SETS CANADIAN OIL SANDS TRUST APART FROM OTHER OIL SANDS INVESTMENT OPPORTUNITIES?

A number of characteristics distinguish Canadian Oil Sands Trust as an oil sands investment. First and foremost is the quality of the Syncrude asset. Our investment in Syncrude represents close to 50 years of oil sands resource at expanded capacity rates of 500,000 barrels per day of light, sweet crude oil. We have tapped into only a fraction of this potential today. Syncrude was one of the first companies to develop Canada's oil sands deposits, and our leases cover some of the richest resource in the Fort McMurray area. After 28 years of operations, Syncrude also has extensive experience mining and upgrading this resource – a distinct advantage in an industry where there are many new entrants.

We have just finished a major expansion, which provides us with the infrastructure to substantially grow production and improves operational flexibility to mitigate the impact of downtime at the plant. As well, it supports our ability to fund future growth opportunities, thus reducing our financing risk relative to start-up oil sands operators.

Our next growth stage will debottleneck the Stage 3 expansion and is much smaller in scale, which should reduce both our project execution risk and our capital investment. We have already pre-invested and completed the most expensive and complicated work – coking capacity. The coker constructed as part of Stage 3 was built with excess capacity of about 30%.

The other aspect of Canadian Oil Sands that distinguishes us is our singular focus on oil sands. We are a pure oil sands play. And because we remain unhedged, our investors have direct exposure to crude oil prices. While this approach can lead to short-term volatility, we believe it most appropriately matches the long-term nature of our assets.

1.1 HOW WILL THE FEDERAL GOVERNMENT'S PROPOSAL TO IMPOSE A NEW TAX ON INCOME TRUSTS IMPACT CANADIAN OIL SANDS?

The proposed tax changes would reduce the amount of cash available for us to distribute to Unitholders when the rules begin to apply in 2011 as a result of a new 31.5% tax that would be applied to distributions of income. Distributions to our investors would be considered dividends under the new rules, meaning they would be eligible for the dividend tax credit. As such, the after tax impact is relatively neutral for those Canadians who hold our Units in taxable accounts, while those that hold them in tax-deferred accounts and our non-resident Unitholders would see their after tax amounts substantially reduced.

We believe the new rules, however, do not impact the viability of our business. We continue to be a long-term value investment in the oil sands and we do not need the tax efficiency of a flow-through trust model to sustain our business.

The proposed changes include a restriction on how much trusts are permitted to grow. The guidelines allow an income trust to issue new equity that does not exceed the greater of $50 million and an annual, cumulative "safe harbour" amount. The safe harbour amount is 40% of a trust's market capitalization (as at October 31, 2006) in 2007 and 20% thereafter to 2010, thus essentially allowing a doubling of market capitalization over the next four years. Canadian Oil Sands' market capitalization on October 31, 2006 was about $14.2 billion, indicating we have considerable capacity to grow.

In the short-term, our response to the changes was to raise our net debt target to $1.6 billion from our previous target of $1.2 billion. This step should accelerate fuller payout of free cash flow and thereby allow the Trust to maximize distributions until the new tax takes effect in 2011. Beyond that, we have about $2 billion in tax pools available to shelter taxable income.

In the longer–term, we will continue to review our financial plan in light of the final legislation and evaluate our alternatives, including the option of converting to a corporation. The government has indicated this conversion could be made without tax consequences but there are a number of other issues to consider.

ALLEN HAGERMAN
Chief Financial Officer

SIREN FISEKCI
Director, Investor Relations

1.2 WHAT IMPROVEMENTS DO YOU EXPECT AS A RESULT OF THE MANAGEMENT SERVICES AGREEMENT SIGNED BETWEEN SYNCRUDE CANADA AND IMPERIAL OIL RESOURCES?

We think there are significant gains to be realized by improving Syncrude's operational reliability. As well, Syncrude is currently our only oil sands project so we are very motivated to ensure its growth plans stay on track. The Management Services Agreement is intended to accomplish both objectives.

Under the agreement, Imperial Oil Resources will lend its expertise to enhance Syncrude performance on a long-term, comprehensive basis. Imperial Oil Resources has a vested interest through its 25% ownership in the Syncrude Joint Venture. Through their association with ExxonMobil, Imperial Oil Resources has access to proprietary systems and best practices that have been developed and perfected through decades of experience operating more than 50 refineries around the world. A refinery is much like an oil sands upgrader and this expertise will be directly applicable to our Syncrude operations. Key individuals, primarily from Imperial Oil Resources and ExxonMobil and representing among the finest expertise in refinery operations, will be loaned to Syncrude to support in the implementation of these new systems.

The application of these global best practices to Syncrude's operations is expected to result in:

- better operational reliability, which typically leads to higher production levels and lower per barrel operating costs;
- lower energy consumption, which also contributes to lower operating costs as well as better environmental performance;
- reduced requirements for sustaining capital, which is the capital we spend just to maintain production; and
- improved safety performance, where Syncrude already has a strong record.

In addition to enhancing operational efficiency, the agreement promotes Syncrude's growth plans. A new committee is being proposed, with Canadian Oil Sands as the chair, to proceed with the initial design of expansions that should take Syncrude's productive capacity to over 500,000 barrels per day. With this renewed capability and commitment, we believe Syncrude is better positioned than ever for continued success and growth.

1.3 WHAT IS THE IMPACT OF THE STAGE 3 EXPANSION ON CANADIAN OIL SANDS?

Most importantly, it provides us with a significant uplift in our productive capacity, raising it to 129,000 barrels per day from 92,000 barrels per day (based on our 36.74% Syncrude interest). We now have an expanded revenue base, thus bolstering our capacity to pay distributions and/or fund future growth opportunities.

Secondly, we should have a higher quality blend that we can begin marketing towards the end of the year called Syncrude™ Sweet Premium ("SSP"). The attributes of SSP should help to preserve the value of our product within the context of growing synthetic crude oil supply in the market.

Thirdly, Stage 3 should contribute to better environmental performance by reducing sulphur dioxide ("SO_2") emissions and improving energy efficiency, thereby helping to reduce our per barrel carbon dioxide ("CO_2") emissions.

And finally, Stage 3 supports our future growth because it includes investment in excess coking capacity that we can unlock in our next expansion, referred to as the Stage 3 debottleneck.

*We believe one of our key investment attributes is our **EXPOSURE TO LONG-TERM CRUDE OIL PRICES** and therefore, at this time, we intend to remain unhedged.*

1.4 WHAT ARE YOUR PLANS FOR THE ASSETS YOU ACQUIRED AS PART OF THE CANADA SOUTHERN TRANSACTION?

The transaction was an opportunity for us to manage our exposure to natural gas prices. We acquired an estimated 927 billion cubic feet equivalent of natural gas resource at a price of about $0.20 per thousand cubic feet. While this long-life natural gas resource is not in production and there are no plans at this time to develop it, we would expect its value to appreciate if natural gas prices rise significantly. Effectively then, the transaction provides a low-cost hedge against rising natural gas prices.

Natural gas represents about 25% of Syncrude's operating costs, and as a hydrogen feedstock, is used primarily to improve the quality of oil we produce. We do not expect the Arctic natural gas will be used in our Syncrude operations; not only are there logistical challenges in accessing it, but because of our carried interest position we do not have any influence on its development. Similarly, for the vast majority of these natural gas interests, we are not obligated to fund any field development costs and there are no lease rental payments or interest costs. Thus, the Canada Southern transaction was a unique opportunity to secure a strategic, long-term energy asset for the Trust without increasing our business risk.

We should be clear that this is a unique opportunity for the reasons we just described and that we are not interested in acquiring conventional natural gas production. We have already sold most of the conventional crude oil and natural gas assets we acquired as part of Canada Southern, and renamed the company Canadian Arctic Gas Ltd.

1.5 WILL THE INCREASE IN SYNTHETIC CRUDE OIL SUPPLY IN THE MARKET HAVE AN IMPACT ON THE PRICE CANADIAN OIL SANDS RECEIVES FOR ITS OIL?

The growth in synthetic crude oil volumes has already begun to impact our price. Historically, we received a price for our Syncrude™ Sweet Blend ("SSB") that was in a narrow range compared to West Texas Intermediate ("WTI"). In 2006, however, we received an average $2.57 per barrel less than Canadian dollar WTI prices. In 2007, we expect this differential to widen further to average a $4.00 per barrel discount to WTI, although it is difficult to predict and quantify, given the variability in the supply and demand for synthetic oil.

While synthetic crude oil supply is growing, we also expect demand to grow for a number of reasons. First, conventional crude oil supply is falling and synthetic volumes are becoming an important supplement to the overall supply base. Secondly, due to a number of pipeline reconfiguration projects completed in 2006 in the U.S. mid-continent, the number of markets we can send our oil to has increased, allowing more refineries to include SSB as part of their supply mix. Finally, with more volumes of heavy oil being produced in Western Canada, there is demand for synthetic crude as a diluent whereby light synthetic crude is blended with heavy oil to create a less viscous and more "flowable" product. The growth in this market may be limited, however, by the condensate import pipelines being planned for Western Canada.

The critical issue for crude oil producers in the short-term is not demand but transportation. Export pipeline capacity is currently very tight and, while a number of expansions and new pipelines are in the planning stages, it is uncertain how many of them will materialize. Furthermore, most new pipeline projects take years to be approved and constructed, thus access to transportation likely will continue to be tight for the next few years.

In anticipation of increased competition for pipeline space, we have been actively pursuing a number of transportation alternatives. Our experience is that pipeline traffic tends to fluctuate throughout the year with demand being higher in some months than others. Bearing this in mind, we have begun to investigate the option of acquiring mid-stream infrastructure such as storage tanks. This would allow us to store our product during peak traffic times and then transport it in months when space is more readily available. We also are exploring opportunities to support pipeline projects, a move that would allow us to secure rights to pipeline capacity, and we continue to work with pipeline companies to develop pipeline extensions and expansions.

Our most important initiative in anticipation of higher synthetic volumes was undertaken about six years ago when we decided to upgrade our entire production to the higher quality SSP crude oil as part of our Stage 3 expansion. SSP should enable our existing refining customers to increase their intake of our production as well as potentially attract new customers.

DAVID SIRRS
Director, Marketing

TREVOR ROBERTS
Chief Operations Officer

1.6 WHAT CHALLENGES DO YOU SEE FOR THE OIL SANDS INDUSTRY?

We see four main areas that present both challenges and opportunities for our industry, and will most certainly shape its future; they are: the tight supply of skilled labour, the pressures on regional infrastructure to support oil sands growth, the impact of oil sands operations on the environment, and the Alberta government's review of Crown royalties.

Tight supply of skilled labour

There has been a tremendous rise in demand for skilled labour to construct and operate the growing number of oil sands projects. Many operators are experiencing difficulties sourcing skilled labour to construct their projects, leading to rising capital costs and completion delays. Fortunately, the pressure on Syncrude is less, given we have just completed the Stage 3 project and the next expansion is anticipated to be much smaller in scale. Nonetheless, we plan to continue to grow, and as such, attracting and retaining skilled workers is critical to our success.

Syncrude upgrades all of its production on-site, providing important economic benefits and resulting in a cleaner burning, more environmentally-friendly crude oil.

Syncrude's permanent workforce has remained fairly stable with an attrition rate among the lowest in the industry. We aim to keep it that way and, in 2006, introduced an employee retention program designed to ensure our people, which are some of the best and most experienced in the industry, remain with Syncrude.

With the increased competition for skilled labour we must remain an employer of choice. We plan to do this by maintaining our reputation as a leading operator in Canada's oil sands industry with one of the best records for safety performance. Syncrude also strives to attract new people to the industry by promoting apprenticeships and partnering with post-secondary institutions.

The joint venture arrangement under which Syncrude operates provides the unique benefit of accessing the expertise and human resources of the owner companies. This advantage was recently elevated with the signing of the Management Services Agreement, which expands access to the global refinery talent within Imperial Oil Resources and ExxonMobil. The agreement also enhances the career development opportunities for Syncrude Canada's employees.

Pressures on regional infrastructure

We recognize the growth of the oil sands industry has created pressure in the regional municipality of Wood Buffalo, which includes the city of Fort McMurray, to meet the needs of an expanding population. Appropriate support of infrastructure, housing availability and provision of quality services, including schools and hospitals, is critical for a good quality of life and to attract and retain people in the region.

With close to 30 years of operations and being one of the largest employers in the region, Syncrude has a strong relationship with the local communities. In 2006, Syncrude announced a major donation of $2.5 million to help meet the need for greater recreational facilities in Fort McMurray. As well in 2006, Syncrude reached the $1 billion milestone for business activity with Aboriginal companies. Syncrude is the only business in Canada to have achieved Gold Level accreditation for the third time with the Canadian Council for Aboriginal Business – a national program that recognizes companies committed to increasing Aboriginal employment, assisting in business development, building individual capacity, and enhancing community relations.

Recognizing that it takes more than the efforts of a single organization, Syncrude is a founding member of the Regional Issues Working Group. This industry association is working with government to build an understanding of the needs of the region and to encourage action on a variety of infrastructure needs. In 2006, the government made important progress on transferring more Crown land for new housing, improving road infrastructure and providing bridge financing to the municipality for a wastewater treatment plant. We believe cooperative efforts such as this can help ensure the region can adequately support the growth of an industry that is providing significant economic benefits across the country and generating revenue for all levels of government.

The environment

Syncrude is committed to sustainable development and that includes continuous improvement in our environmental performance. We have delivered on that commitment through strong performance in the areas of protecting air quality, becoming more energy efficient, providing leading-edge land reclamation and increasing efficiency in water use.

Air quality:

Syncrude is reducing SO_2 emissions on both a per barrel and absolute basis at the same time we grow our operation. In 2006, Syncrude added roughly 100,000 barrels per day in productive capacity and total SO_2 emissions went down. This is due to the Stage 3 expansion including a new flue gas desulphurization unit, which virtually eliminates SO_2 emissions from Syncrude's sulphur recovery plants and new coker. Syncrude plans to reduce SO_2 emissions even further – about 60% from the current approved levels of 245 tonnes per day – by 2011. Extensive air monitoring and studies have shown that the region of Wood Buffalo has as good or better air quality as anywhere in Alberta, and our investments will help protect the region's air shed as well as neighbouring areas.

Land reclamation:

Syncrude is also committed to ensuring land disturbed by our operation is returned to a stable, safe condition. Reclamation efforts began in the 1970s and to date, Syncrude has reclaimed about 22% of its disturbed land, establishing us as an industry leader in this area. Over the next 10 years, land reclamation should keep pace with land disturbance.

Water:

Syncrude recognizes the importance of water as a precious resource by using it responsibly. In fact, Syncrude is the oil sands industry's most efficient user of water. We recycle about 80% of the total water we use, and the water we do draw from the Athabasca River represents 0.2% of the river's average annual flow. Expansion of our operation is expected to increase that draw to 0.3%, or about 1% during the lowest flow period in the winter. Syncrude remains focused on finding further efficiencies in water use and maintaining its leadership role in this key area of sustainability.

Greenhouse gas emissions:

Syncrude continues to explore new ways to reduce its CO_2 emissions intensity by developing new technologies and improving our energy efficiency performance. We are an industry leader in research and development with $40 million devoted annually towards the development of new technology and the enhancement of current processes. In fact,

RYAN KUBIK
Treasurer

LAUREEN DUBOIS
Controller

many of the energy-efficient technologies used across the oil sands industry today were pioneered by Syncrude.

The application of new technology and equipment, combined with gains in reliability, led to a 14% reduction in per barrel greenhouse gas emissions between 1990 and 2004. A key breakthrough was Syncrude's invention of a low energy extraction technique, which reduced process water temperatures to extract bitumen from the original 80˚C to between 35˚C and 40˚C.

Another technology under development that holds promise for reducing greenhouse gas emissions is a new mining and extraction process called at-the-face mobile crushing and slurrying. This process should also help to reduce costs by minimizing the transportation of waste sand.

Regional initiatives:

In addition to Syncrude's efforts to improve our environmental performance, Syncrude is a leading member of a number of multi-stakeholder organizations committed to addressing environmental issues in the region. These organizations include the Regional Aquatics Monitoring Program, the Cumulative Environmental Management Association, and the Wood Buffalo Environmental Association.

More information on Syncrude Canada's commitment to sustainable development practices can be found in Syncrude's sustainability report, available on their website at www.syncrude.ca.

Canada has the second largest recoverable reserves of crude oil in the world with an estimated ***179 BILLION BARRELS****, 98% of which is attributable to the oil sands.*

Crown royalties

The Alberta government has announced it plans to review Alberta's current oil sands royalty regime to determine if it applies the most appropriate royalty rate to oil sands' production.

The current regime was instituted in 1997 and calculates royalties as 1% of gross revenue until a project reaches payout, after which point the rate rises to 25% of revenue less operating and capital costs. As a percentage, the rate is designed to increase the government's take as crude oil prices rise – higher prices accelerate recovery of costs and once payout has been reached, the royalty is a cash sharing formula.

We believe the current regime strikes the right balance between the owners of the resource – the people of Alberta – and those risking capital to develop it. The success of Alberta's oil sands is largely due to the historically stable and predictable fiscal regime that has been in place since 1997, which has encouraged investment by recognizing the unique challenges of the oil sands business. Oil sands projects are capital intensive and risky, requiring billions of dollars of upfront investment and very long lead times before they are capable of generating revenue and eventually a profit. Once these projects have recovered their costs, however, the regime provides Albertans with the opportunity to participate with a 25% share in the industry's profits.

The Syncrude project is already providing this higher return to Albertans. Robust crude oil prices have increased revenues from the base plant and accelerated payout of the new Stage 3 expansion. As a result, the Syncrude project began paying the higher royalty rate at roughly the same time as the expansion was completed. Based on Canadian Oil Sands' assumptions for 2007 contained in this annual report, Syncrude is expected to pay Crown royalties of $675 million, or $6.14 per barrel, this year.

As the oil sands industry expands, overall royalties should continue to increase. In fact, the Regional Issues Working Group forecasts annual royalty payments to the Alberta government will exceed $4.5 billion annually in less than 10 years, assuming a crude oil price of US$50 per barrel.

1.7 IS CANADIAN OIL SANDS CONSIDERING SWITCHING TO A BITUMEN BASED ROYALTY?

Until 2010, the Syncrude Joint Venture has the option to switch from calculating the Crown royalty on upgraded SSB revenues, as it currently does, to a royalty based on bitumen production. The province of Alberta has indicated that this option cannot be exercised until a Bitumen Valuation Methodology is established for the industry, which would define the process for determining a market price for Syncrude bitumen. In addition, an arrangement needs to be reached on recapture of upgrader growth capital previously claimed and a methodology for allocating common operating and capital costs. Until these and the associated economic issues are resolved, the Syncrude Joint Venture owners cannot exercise the option or properly assess its long-term impact on the project's royalty expense.

1.8 WHAT OPPORTUNITIES DOES THE OIL SANDS INDUSTRY PROVIDE?

The oil sands have proven to be a tremendous resource that benefits all Canadians. Next to Saudi Arabia, Canada has the second largest recoverable reserves of crude oil in the world with an estimated 179 billion barrels, 98% of which is attributable to the oil sands. This resource enables Canada to be self-sufficient in a world dependent on energy, as well as providing significant economic benefits.

Development of the oil sands provides enormous opportunities across the country. By next year, it is expected that the oil sands will have created about 240,000 jobs across Canada – 27% of which are outside Alberta – and by 2020 will have generated $885 billion in GDP activity. Syncrude itself is a major engine of growth for the Albertan and Canadian economies with over $3.3 billion in total spending during 2006. The oil sands industry greatly contributes to the prosperity and high quality of life enjoyed by all Canadians.

1.9 WHAT'S NEXT FOR CANADIAN OIL SANDS?

We plan to continue to grow responsibly. We have an excellent resource base through our Syncrude interest that can support further increases in productive capacity. Current plans call for productive capacity to grow to about 184,000 barrels per day, based on our 36.74% interest, late in the next decade.

We also will continue to evaluate opportunities to acquire additional oil sands interests. We believe our Syncrude asset has exceptional value, so anything we evaluate is benchmarked against Syncrude. Our preference would be to increase our Syncrude ownership; however, we would also consider other opportunities along the oil sands business chain, from reserves to downstream refining assets.

MARCEL COUTU
President and Chief Executive Officer

TRUDY CURRAN
General Counsel and Corporate Secretary

MARCEL COUTU

President and Chief Executive Officer

Marcel leads the Canadian Oil Sands' team in setting and carrying out the strategic direction for the Trust. He also provides guidance to the Syncrude project through his roles as chair of the Syncrude CEO and Management Committees and Chairman of the Board of Syncrude Canada.

ALLEN HAGERMAN, FCA

Chief Financial Officer

Allen's goal is to provide accurate, timely and understandable disclosure; ensure an appropriate system of internal controls is in place; perform financial risk assessment and management; and develop financing plans to access the capital markets. He is assisted by Ryan Kubik, Laureen DuBois, Siren Fisekci and Aysha McKinnon.

RYAN KUBIK

Treasurer

Ryan focuses on prudent management of the Trust's financial strategy. With the support of Scott Arnold, Ryan assesses the impact of the business environment on the Trust's financial position. Ryan also is responsible for stewarding the Trust's insurance program, credit risk and information systems environment.

TREVOR ROBERTS

Chief Operations Officer

Trevor is the Trust's main operational liaison, providing oversight of Syncrude's operations and working with the Joint Venture owners to maximize the potential of the Syncrude asset. In addition, Trevor oversees the Trust's marketing group and evaluates new growth and business development opportunities. Aswin Patel supports Trevor on the operations side and David Sirrs reports to Trevor on the marketing function.

TRUDY CURRAN

General Counsel and Corporate Secretary

Trudy focuses on the Trust complying with applicable legal requirements and strives for timely, accurate and understandable disclosure. She also assists the board of directors in its stewardship of achieving long-term optimization of Canadian Oil Sands' assets. In addition, Trudy is responsible for human resources and social responsibility. Ida Morros (filling in for Cathy Jones during her maternity leave) assists Trudy in these areas.

LAUREEN DUBOIS

Controller

Laureen endeavours to provide accurate and timely reporting of the Trust's financial results in an understandable manner to assist investors or potential investors of the Trust in making investment decisions. Laureen carries out this objective with significant contributions from her accounting team members, Sherri Stewart and Marlene Ashton-Teigland.

SIREN FISEKCI

Director, Investor Relations

Siren aims to ensure the Canadian Oil Sands Trust investment achieves fair value in the market by providing investors with quality disclosure and developing accurate, timely communication that describes the Trust's activities and the Syncrude operations. Marie Fenez supports Siren with the investor relations function.

DAVID SIRRS

Director, Marketing

David directs our marketing program and, together with his team, focuses on optimizing our product value by developing long-range marketing and logistics plans, continuous evaluation of crude oil markets and transportation options, and maintaining strong relationships with our customers. David's team is comprised of Lynette Johnston, Reshma Rawji, Terry Frehlich and Nick Reid.

Last year we set the goal of marketing our Syncrude production directly. We believed that internalizing the marketing function would allow us greater insight into our customers' needs, enhance our understanding of crude oil markets and assist in the development of distribution strategies. Beginning in September 2006 we successfully achieved this goal and already are realizing many of the benefits.

DAVID SIRRS
Director, Marketing

With over 70 years of combined energy marketing experience, Canadian Oil Sands' marketing team focuses on optimizing our product pricing, enhancing our understanding of crude oil markets, managing our risk profile and maintaining strong relationships with our customers.

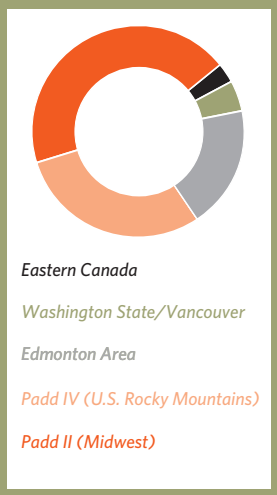
Our strongest motivation for internalizing marketing was to strengthen our ability to build long lasting relationships within the North American refining industry. With the increase in Syncrude's productive capacity to 350,000 barrels per day through Stage 3, we knew that strong relationships would be critical to our future success in achieving optimum value for our share of that production.

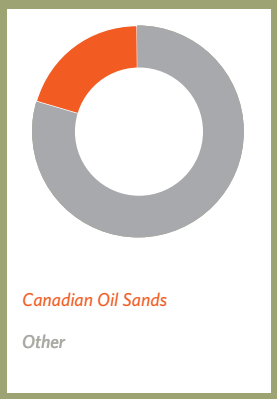
Profile building in the industry was another key undertaking for the new marketing team. Members of the marketing group assumed positions on the crude oil, pipeline expansion and markets and transportation committees of the Canadian Association of Petroleum Producers, focusing on ensuring that policy decisions reflect the unique needs of light oil producers. Our marketing group also has been instrumental in developing the transportation alternatives described in the Round Table Section of this annual report, which should reduce the risk of pipeline constraints in the coming years.

Customer education is an important objective for the marketing group as we expect to transition all of our production to a higher quality light crude. This enhanced SSP product promises even greater market potential with markedly higher distillate cetane and smoke point characteristics, and lower distillate sulphur and nitrogen content. These qualities should assist North American refiners to meet more stringent environmental requirements and will greatly assist in feedstock selection. Our customers can then rely on the consistency of this quality. Syncrude's strict quality control standards ensure that its crude falls within a narrow, predictable set of parameters. This dependability has value for refiners, as it allows them to run their operations more smoothly and efficiently.

Through our marketing efforts and the move to a higher quality blend, we believe that we are well positioned to achieve optimum pricing for our production, within the driving force of supply and demand. Our enhanced understanding of the crude oil market will also help us communicate market demand trends to Syncrude, thereby helping to shape the direction of our future production streams.

ESTIMATED CONSUMPTION OF CANADIAN OIL SANDS' SSB PRODUCTION IN 2006





NORTH AMERICAN LIGHT SWEET SYNTHETIC CRUDE OIL SUPPLY
(bbls per day of productive capacity)

MARKETS FOR CANADIAN OIL SANDS' PRODUCTION

Canadian Oil Sands markets its synthetic crude oil production to refineries in both Canada and the United States, mostly in the regions shown on the map. For a portion of our sales, we are responsible for the transportation beyond Edmonton and delivery directly to the refinery, while for the remainder the refinery customers take delivery in Canada and are responsible for the transportation costs. With the improvement in the product quality to Syncrude™ Sweet Premium, we expect some of our traditional refinery customers will be able to significantly increase the amount of our crude feedstock they can process, allowing them to increase the volumes they purchase. This should contribute to an improved net realized price for SSP relative to SSB, reflecting reduced transportation costs as the production would not have to move as far to clear the market.

Syncrude is the single largest source of light, sweet synthetic crude oil in North America with Canadian Oil Sands representing the largest share of this production.


91
BUCYRUS
BUCYRUS
91 Syncrude

EXPERIENCED OPERATOR

The Syncrude project is an integrated oil sands mining facility that processes bitumen into a light, sweet crude oil. Syncrude Canada Ltd. operates the project on behalf of seven joint venture owners. Although a private joint venture, Syncrude adheres to corporate governance standards. A board of directors oversees the organization, chaired by Canadian Oil Sands' President and CEO with representation by the other owners as directors. The owners also provide strategic direction to Syncrude through active representation on various steering committees, particularly the Syncrude Management Committee which interfaces with Syncrude's executive to steward the project's operations and expansions.

Extracting and processing bitumen from the oil sands is a complex, challenging business with the potential for high returns when operations are running smoothly. In a world where crude oil is becoming harder to find, the application of new technologies should help make oil sands development increasingly efficient. The operators that are best positioned to succeed in this environment are those with experience.

Syncrude is one of the pioneers in the oil sands, having been in continuous operation since 1978. Over that time, Syncrude has established a reputation as a safe, environmentally sustainable and innovative operator. Many of the technologies used today in the oil sands industry are patented Syncrude inventions, such as hydrotransport and low energy extraction.

Production and operating cost performance

Since it began operations in 1978, Syncrude has been successful in growing production and reducing per barrel operating costs (see graph on page 29); however, this trend stalled in 2001 when we embarked on our Stage 3 expansion project. We believe one of the reasons for the more erratic performance was the re-direction of efforts towards the Stage 3 project combined with the disruption caused by the construction of a complex, large expansion within an existing operating facility.

In 2006, we completed and started up our Stage 3 expansion, resulting in a rise in Syncrude production to 94.3 million barrels, or an average 258,000 barrels per day; however, the incremental volumes were offset somewhat by a scheduled turnaround of Coker 8-1 earlier in the year and unplanned maintenance of Coker 8-2 late in the year.

Operating costs in 2006 averaged $27.07 per barrel. As the majority of costs are fixed, unit operating costs are highly variable with production levels. In 2006 we saw our cost base increase as we added the people and equipment necessary to support the expanded Stage 3 facility, but it was not until later in the year with the start-up of those operations that we began to benefit from the additional production. As well, the turnaround and maintenance work performed on two cokers contributed to higher operating costs because of the volume impact and the expensing of all maintenance and turnaround costs in the period they are incurred.

Natural gas also has a significant impact on our operating costs. Natural gas is used in our production process as an energy source, but we use it mostly to create hydrogen to raise our product quality to the Syncrude™ Sweet Blend ("SSB") standard. In 2006, we consumed more natural gas in our operations because of the start-up of Stage 3 and the coker maintenance. Syncrude's operations are highly integrated, which means energy efficiency is reduced during maintenance and startup periods.

Going forward, we expect to consume higher volumes of natural gas until our Stage 3 operations stabilize, after which we expect to consume about 0.85 gigajoules for every barrel of synthetic oil we produce. This improvement in our energy efficiency should not only contribute to lower operating costs, but also to less greenhouse gas emissions per barrel.

Syncrude self-generates about two-thirds of its energy requirements in its integrated operation. A primary use of imported natural gas is to improve product quality and help refineries meet higher fuel standards, including low-sulphur diesel.

We expect volumes to rise as a result of our expanded Stage 3 facilities with Syncrude now capable of producing 350,000 barrels per day. It may take us some time before we average those volumes, given that we must first stabilize the operation of the new units. Once we have achieved stable design rates, Stage 3 should provide scale economies and corresponding lower per barrel operating costs; however, the effect of inflation – a reflection of the very heated oil sands economy – will temper what we can achieve in terms of operating cost reductions.

1964
Syncrude Canada Ltd. is incorporated.

1978
The first barrel of upgraded crude oil flows in July and the Syncrude Project officially opens in September.

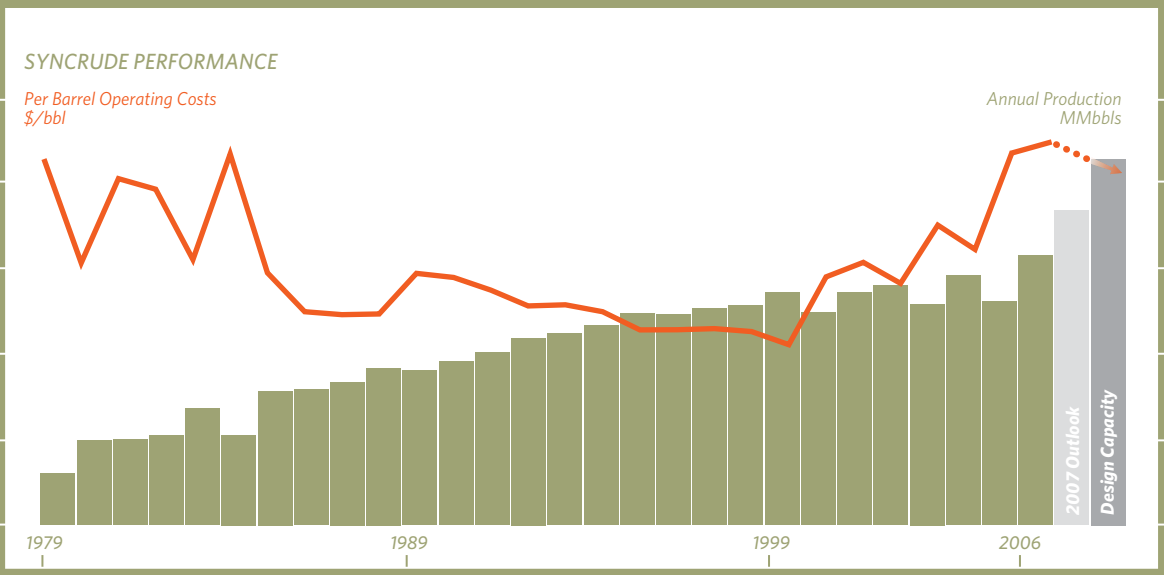
1983
Syncrude announces the Capacity Addition Project – a $1.2 billion capital investment program aimed at increasing productive capacity to 150,000 barrels per day from 109,000 barrels per day.

1988
The Capacity Addition Project is completed on time and under budget.

1993
Thirty Wood Bison are released on 25 hectares of reclaimed land on the Syncrude site, establishing a viable bison herd that continues to thrive today in a dedicated Wood Bison habitat.

1997
Syncrude announces a multi-staged expansion project called Syncrude 21, with the ultimate goal of increasing productive capacity to over 500,000 barrels per day.

1997 con't...
Syncrude opens the first train of its North mine and introduces first full-scale commercial application of Syncrude pioneered hydrotransport technology. Hydrotransport enables access to oil sands mines remote from extraction facilities, and contributes to improved energy efficiency and reduced operating costs.



1998

Syncrude becomes the first oil sand producer to ship a cumulative total of one billion barrels of crude oil.

1999

Stage 1 expansion completed with the startup of a second mining train in the North Mine and the Vacuum Distillation Unit, which boosts Syncrude's crude oil productive capacity and energy efficiency.

2000

Syncrude opens the Aurora North mine – the first mine remote from an upgrading facility – and introduces a suite of Syncrude innovations; the most notable being low energy extraction, which uses up to 40% less energy in the mining and extraction process, thereby contributing to lower operating costs and reduced greenhouse gas emissions.

2001

Stage 2 expansion completed and Stage 3 construction begins – the largest expansion undertaken in Syncrude's history.

2006

Stage 3 expansion completed, reaffirming Syncrude's position as the largest oil sands operator with a productive capacity of 350,000 barrels per day.

The original Base Mine is exhausted and the last dragline and bucketwheel retired. All of Syncrude's operations now employ the more efficient truck and shovel method – a system pioneered by Syncrude in the early 1980s.

Stage 3 begins operating

Stage 3 commenced operations on August 30, 2006. The project originally came on-line in May 2006, but was temporarily suspended when Alberta Environment issued an environmental protection order in response to reports of unpleasant odors.

The source of these odors was the ammonia being used in the new flue gas desulphurizer ("FGD"). The FGD is designed to scrub the sulphur emissions from the new coker by combining these emissions with ammonia. Analysis indicated the ammonia produced at the Syncrude operation contains impurities, including odor-causing compounds. Syncrude is currently purchasing aqueous ammonia to support the operation of the FGD and is investigating a solution that will enable it to use the on-site produced ammonia.

The FGD is now doing what it was designed to – significantly reducing SO_2 emissions from the expanded facilities and producing an ammonium sulphate slurry. This slurry is being supplied to an on-site plant operated by Marsulex, who use it to produce a marketable fertilizer product.

The Stage 3 project also was designed to improve product quality for all the barrels coming out of the plant from SSB to SSP. The transition to this higher quality crude has been delayed to the fourth quarter of 2007 as Syncrude must first make modifications to the steam generation unit of the new hydrogen plant. The modifications are not expected to be complicated or costly, and Syncrude plans to perform them during planned turnarounds in the fall of 2007 to minimize any lost production.

*Syncrude produces the equivalent of **15%** of Canada's crude oil needs based on the project's current productive capacity.*

Syncrude's Stage 3 facilities have the design capability to produce approximately 375,000 barrels per stream day when operating at full capacity under optimal conditions and with no downtime for maintenance or turnarounds. This daily production capacity is referred to as "barrels per stream day". However, under normal operating conditions, scheduled downtime is required for maintenance and turnaround activities and unscheduled downtime will occur as a result of mechanical problems, unanticipated repairs and other shutdowns. When allowances for such downtime are included, the daily design productive capacity of Syncrude's post-Stage 3 facilities is approximately 350,000 barrels per day on average and is referred to as "barrels per calendar day".

Syncrude's primary objective is to reach design capacity of 350,000 barrels per calendar day as soon as possible, although we anticipate that a period of stabilizing the new facility is required before we can ramp up to full production, during which production levels will likely fluctuate. For 2007, we are forecasting Syncrude production to average about 300,000 barrels per day.

In the future, it is possible that we may even be able to exceed design capacity. Similar projects, including Syncrude's original base plant, have surpassed name plate capacity through various optimization efforts.

Improving reliability under the new Management Services Agreement

Syncrude Canada Ltd. entered into a Management Services Agreement with Imperial Oil Resources in November 2006 in order to provide Syncrude with new tools and resources to improve operational reliability. Syncrude will have access to the global best practices and systems of Imperial Oil Resources and ExxonMobil. The agreement does not change the joint venture operating structure; Syncrude continues as the operator of the facilities under the direction of the Syncrude Management Committee, and Canadian Oil Sands remains the chair of that committee.

The term of the agreement is initially for 10 years with five-year renewal provisions thereafter. During the first 10 years, Syncrude will pay $47 million in annual fixed service fees as well as cover the direct costs Imperial Oil Resources incurs in providing these services. The fixed fees then drop to $33 million annually on renewal. As well, performance fee incentives will apply if certain targets are achieved between years four and 10. Each Syncrude Joint Venture owner pays its pro rata share of these costs.

Under the agreement, the following opportunity areas have been identified:

- Increased production through improved maintenance effectiveness and reliability by implementing ExxonMobil's Global Reliability System.
- Improved energy efficiency through the implementation of a Global Energy Management System.
- Heightened procurement efficiencies through full access to Imperial and ExxonMobil's global contracts and contemporary sourcing strategies.
- Strengthened business controls with the implementation of the Controls Integrity Management System.

SYNCRUDE OWNERSHIP

Canadian Oil Sands
36.74%

Imperial Oil Resources
25%

Petro-Canada Oil and Gas
12%

Conoco-Phillips Oil Sand Partnership II
9.03%

Nexen Oil Sands Partnership
7.23%

Mocal Energy Limited
5%

Murphy Oil Company Ltd.
5%

Canadian Oil Sands is the largest owner of Syncrude with a 36.74% interest and provides the only pure investment opportunity in the project.

QUALITY RESOURCE BASE

The size and quality of Syncrude's resource base provide the project with a distinct advantage. Syncrude's eight leases envelop some of the richest resource in Alberta's oil sands. Proved plus probable reserves of fully upgraded crude oil are estimated at five billion barrels. An additional four billion barrels of contingent recoverable resource is expected to be reclassified as proved plus probable if and when the plans to develop them are implemented, and we obtain approval from the Syncrude owners and the regulatory authorities.

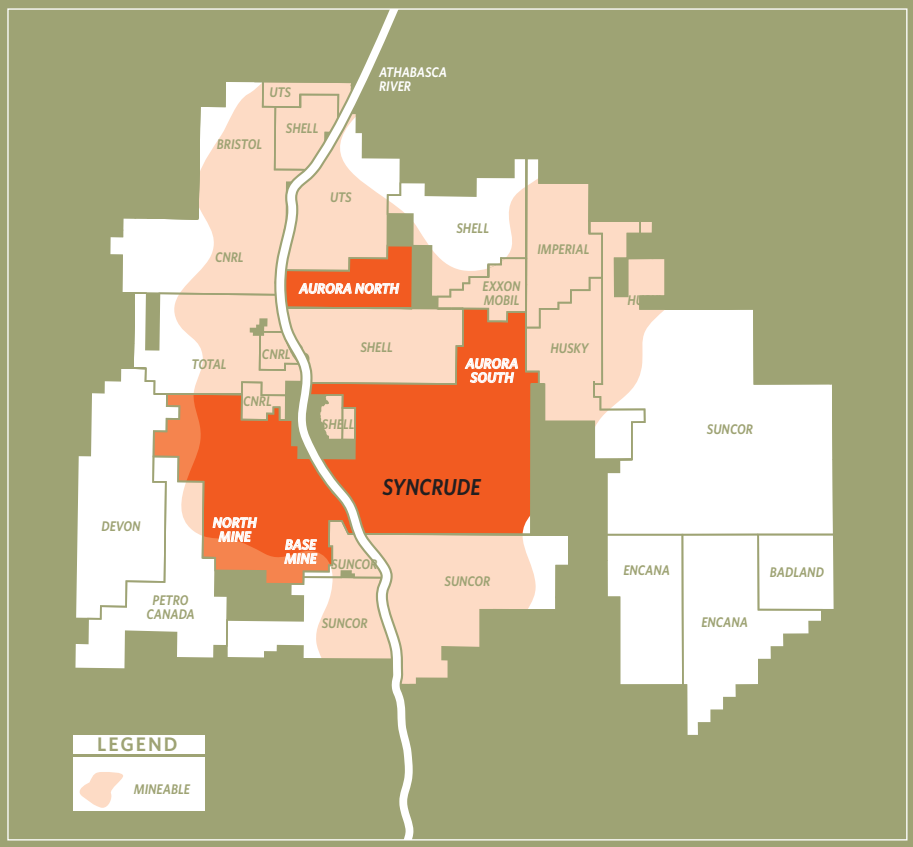
The quality of Syncrude's resource is also among the best. Syncrude's Aurora North and South leases have low total volume to bitumen in place ratios ("TV/BIP") of 7.2 and 8.1, respectively. These deposits are the future of Syncrude's operations and their low TV/BIP ratios enhance the economics of the Syncrude project. TV/BIP measures the total volume of material (dirt, sand and bitumen) relative to the volume of bitumen in place; it considers how much waste must be removed to access the bitumen deposit and the ore grade, or the richness of the deposit. Other oil sands mining projects have TV/BIP ranges of 7.0 to 10.7.

Long-life Resources

As at December 31, 2006 (billions of barrels of SSB)	*Syncrude*	*Canadian Oil Sands*[1]
Proved Reserves[2]	2.8	1.0
Proved plus Probable Reserves[2]	5.0	1.8
Estimated Recoverable Resources *(includes proved plus probable reserves and contingent resources)*	9	3

1 *The Trust, through its operating subsidiaries, held a 35.49% interest in the Syncrude project as at December 31, 2006. On January 2, 2007, the Trust's interest in Syncrude rose to 36.74%.*

2 *Gross reserve volumes before deduction of Crown royalties, based on independent reserves evaluation by GLJ Petroleum Consultants effective December 31, 2006 and prepared in accordance with National Instrument 51-101.*



The Syncrude Project is located 40 kilometers north of the town of Fort McMurray in Alberta, Canada.

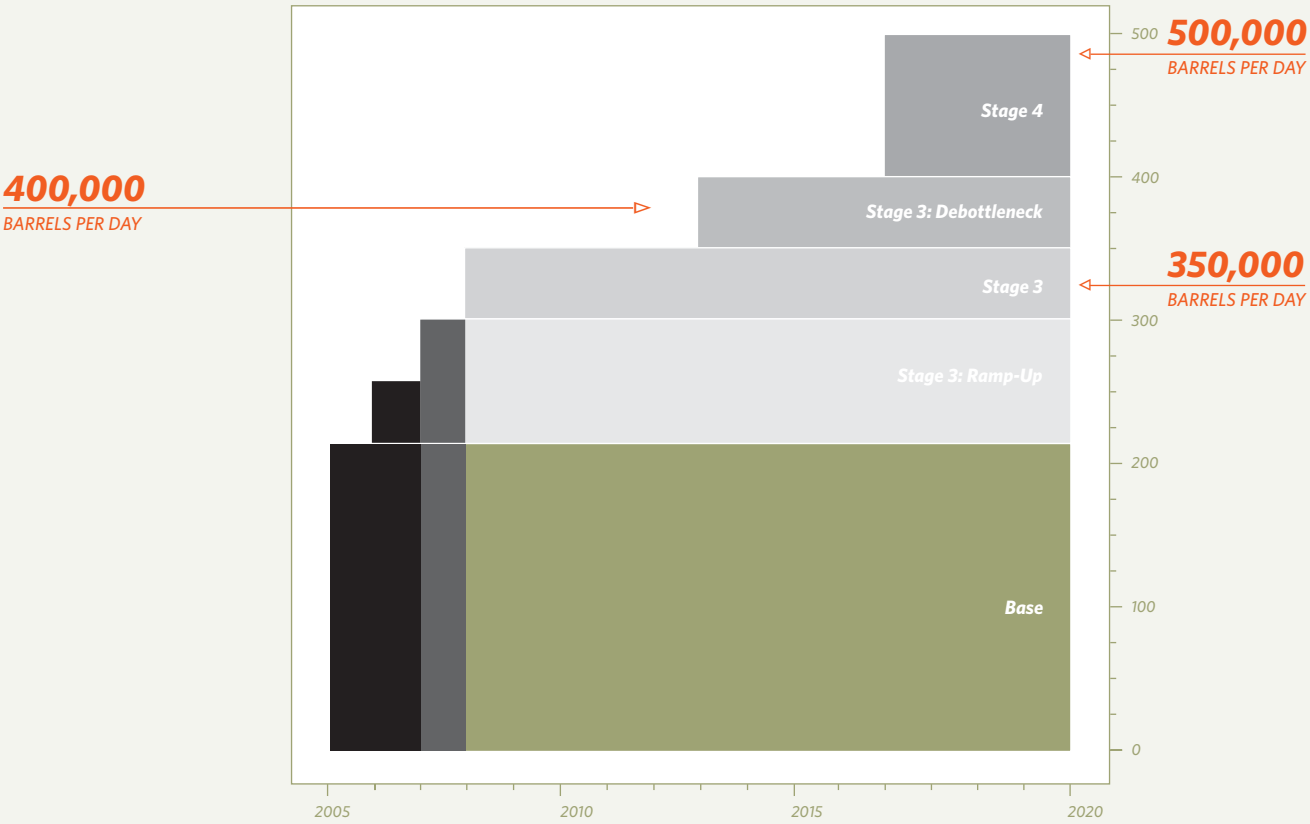
SYNCRUDE'S QUALITY LEASES

Syncrude's leases are in the sweet spot of the Athabasca Oil Sands deposit, spanning over 102,000 hectares and holding an estimated nine billion barrels of fully upgraded, recoverable crude oil resource. This resource is sufficient to produce 500,000 barrels per day for about 50 years.

EXPANDED INFRASTRUCTURE

The completion of the Stage 3 project in 2006 provided Syncrude with the capacity to produce an average 350,000 barrels per calendar day. It also provided additional capacity that can be fully utilized in the next growth stage, referred to as the Stage 3 debottleneck, which is expected to add incremental capacity of 30,000 to 50,000 barrels per day around 2012. The last stage under Syncrude's preliminary growth plans is Stage 4. This expansion is expected to boost incremental capacity by another 100,000 barrels per day and be on stream post 2016.

SYNCRUDE EXPANSION PLANS



Base reflects 2005 actual production; Stage 3 ramp-up reflects 2006 actual production and 2007 production outlook; Stage 3, Debottleneck and Stage 4 reflect productive capacity; the Debottleneck and Stage 4 are preliminary and have not yet been approved by Syncrude's owners.

STEP 1.0:
MINING

After removing the overburden – the rock, sand and clay material typically found above the oil sands layer – Syncrude's fleet of trucks and shovels excavate the oil sand. The oil sand is subsequently mixed with water to create a slurry that is pumped to extraction facilities.

STEP 2.0:
EXTRACTION

Slurry from the mines is fed into the Primary Separation Vessels. There, bitumen floats to the surface as froth. The bitumen froth is diluted with naphtha and then fed into centrifuges that further separate the liquids and solids.

STEP 2.1:
FROTH TREATMENT

In the final step of the extraction process, the naphtha is removed in the Diluent Recovery Units, leaving only pure bitumen.

UTILITIES

Syncrude's utilities operations produce steam, electricity and air as well as treat the water required to run plant operations. Syncrude is self-reliant in electrical power generation and is a net exporter of electricity to the Alberta power grid.

STEP 3.0:
UPGRADING

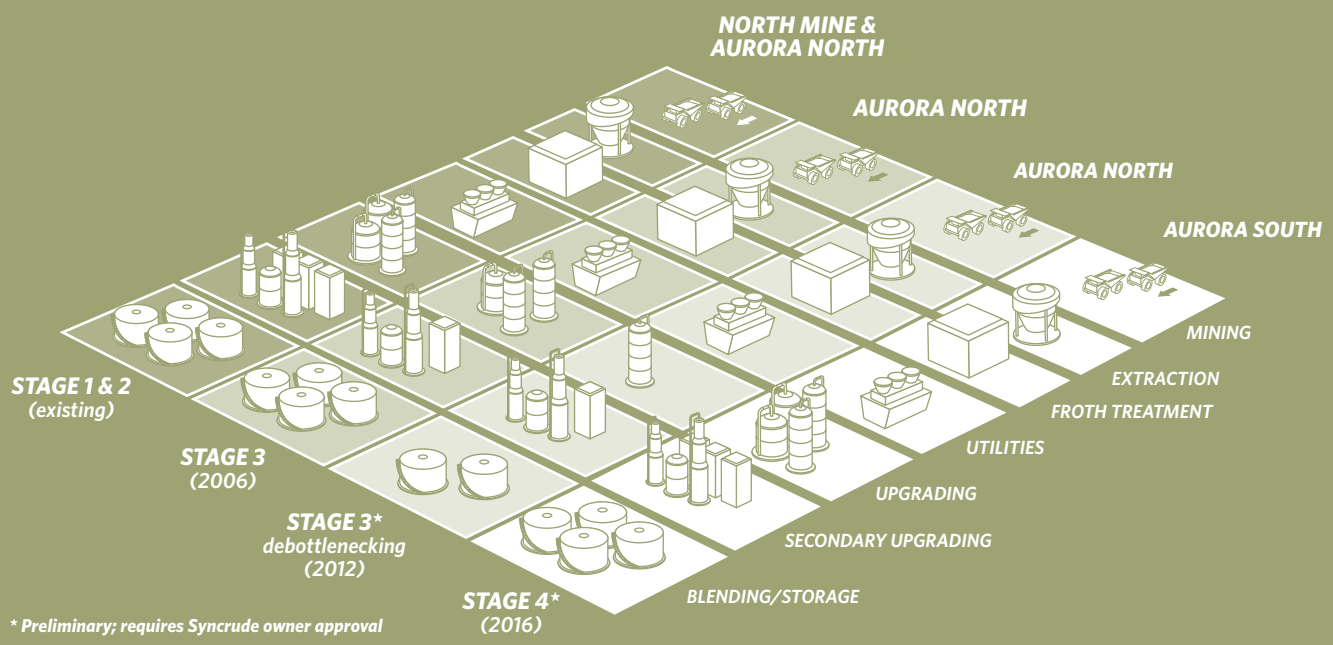
The bitumen is fed into either a Coker or the LC Finer where it is thermally cracked to produce hydrocarbon gases, naphtha and gas oil. The liquid products are conveyed to the hydroprocessing units for final clean-up.

STEP 3.1:
SECONDARY UPGRADING

Hydrotreating is the final step in converting bitumen to synthetic crude oil. In the hydroprocessing units, hydrogen is used to remove sulphur and nitrogen compounds.

STEP 4.0:
BLENDING /STORAGE

The hydrotreated components are blended together, resulting in a sweet synthetic crude oil. The oil is then transported via pipeline to refineries throughout Canada and the U.S.



**** Preliminary; requires Syncrude owner approval***

C.E. (CHUCK) SHULTZ

Chairman and Chief Executive Officer, Dauntless Energy Inc., Chairman of the Board of Directors

Mr. Shultz is the Chair and Chief Executive Officer of Dauntless Energy Inc. (private oil and gas company) which he formed in 1995. Prior to that, from 1990 to 1995, Mr. Shultz served as President and Chief Executive Officer of Gulf Canada Resources Limited (oil and gas company). He is a director of Enbridge Inc. (public pipeline company) and of Newfield Exploration (public U.S. oil and gas company). He also is a director of several private companies, and sits on the Siemens Canada Advisory Board. He has completed the Institute of Corporate Directors, Corporate Governance program and holds an accredited ICD designation under that program.

MARCEL R. COUTU

President and Chief Executive Officer, Canadian Oil Sands Limited

Prior to Mr. Coutu becoming the President and Chief Executive Officer of the Corporation in 2001, he was Chief Financial Officer of Gulf Canada Resources Limited from May 1999 to July 2001. Mr. Coutu has completed the Institute of Corporate Directors, Corporate Governance program and holds an accredited ICD designation under that program. He is Chairman of the Board of Syncrude Canada Ltd. and a director of Brookfield Asset Management. Mr Coutu is a member of the Association of Professional Engineers, Geologists and Geophysicists.

E. SUSAN EVANS, Q.C.

Corporate Director, Pending Chair, Corporate Governance and Compensation Committee

Mrs. Evans has served in the oil industry for more than 25 years, initially in private practice with Bennett Jones LLP and subsequently with Encor Inc. (public oil and gas company) as Vice President, Law & Corporate Affairs and Corporate Secretary. Since her retirement in 1993, she has served as a Director of several public companies including Home Oil Company, Anderson Exploration Inc. and Athabasca Oil Sands Limited. Mrs. Evans was also a Commissioner of the Alberta Financial Review Commission, Chair of the Audit Committee for the Province of Alberta, Chair of the Alberta Judicial Compensation Commission and Director of the Canada Deposit Insurance Corporation in Ottawa. She currently serves on the Board of Directors of Enbridge Inc. (public pipeline company).

THE RIGHT HONOURABLE DONALD F. MAZANKOWSKI

Corporate Director and Business Consultant

Rt. Hon. Donald F. Mazankowski is a recipient of the Order of Canada and a director of a number of major Canadian corporations, including ATCO, Great West LifeCo, IGM Financial Incorporated, Power Corporation of Canada, Power Financial Corporation, Shaw Communications Inc., Weyerhauser Co., and Yellow Pages Income Fund. Mr. Mazankowski is also a senior advisor to Gowling, LaFleur Henderson LLP, Barristers and Solicitors. Mr. Mazankowski enjoyed a distinguished 25-year career as a Member of Parliament of Canada from 1968 to 1993 and held several senior Cabinet positions including Deputy Prime Minister from 1986 to 1993, Minister of Finance from 1991 to 1993 and President of the Privy Council from 1986 to 1991. Mr. Mazankowski was also Minister of Agriculture, Minister responsible for Privatization and Regulatory Affairs, President of the Treasury Board, Government House Leader, Minister of Transportation and Minister responsible for the Canadian Wheat Board.

WAYNE M. NEWHOUSE

Corporate Director,
Chair, Resources, Marketing Operations and Environmental, Health and Safety Committee

Mr. Newhouse is a Professional Engineer and oil and gas executive with over 40 years of broad industry experience. From 1995 to present, Mr. Newhouse served as President of two private oil and gas companies. Prior to 1995, he was a Senior Vice President with Norcen Energy Resources Ltd. Mr. Newhouse also has served as a director of a number of public companies, including a conventional oil and gas trust, and is currently a director of E-T Energy Ltd. He has completed the Financial Literacy for Directors course.

WALTER B. O'DONOGHUE, Q.C.

Corporate Director,
Chair, Corporate Governance and Compensation Committee

Prior to January 2005, Mr. O'Donoghue was a partner at Bennett Jones LLP where he practiced corporate law, mergers and acquisitions and securities law for over twenty years. He served as a commissioner of the Alberta Securities Commission for six years from April 1997 to March 2003. He also has served in the past as a director of a number of public issuers, including Telus Corporation and Gulf Canada Resources Limited.
Mr. O'Donoghue is retiring from the Board, effective April 25, 2007.

BRANT SANGSTER

Corporate Director

Mr. Sangster was appointed as a director in September 2006, bringing with him nearly 38 years of experience in the energy industry. In 2006, Mr. Sangster retired as Senior Vice President, Oil Sands with Petro-Canada following a 25-year career as a senior executive with that company. He was responsible for managing Petro-Canada's oil sands businesses, including their 12% interest in the Syncrude Joint Venture and participation in the Fort Hills mining and upgrading project. Prior to joining Petro-Canada, Mr. Sangster held various strategic planning and operating positions with Imperial Oil Resources Ltd. for 13 years. Mr. Sangster currently serves on the Board of Directors of Titanium Corporation Inc.

WESLEY R. TWISS

Corporate Director,
Chair, Audit Committee

Mr. Twiss is a corporate director with more than 35 years of energy industry experience. He was Executive Vice President and Chief Financial Officer of PanCanadian Energy Corporation from October 2000 until April 2002 and was Executive Vice President and Chief Financial Officer of Petro-Canada from 1998 through 2000. In those roles, Mr. Twiss was responsible for directing all aspects of corporate financial affairs, as well as strategic management and corporate development. He is a director of Keyera Facilities Income Trust, EPCOR and Addax Petroleum Corporation. He has completed the Institute of Corporate Directors, Corporate Governance program and holds an accredited ICD designation under that program.

JOHN B. ZAOZIRNY

Counsel, McCarthy Tétrault LLP

Mr. Zaozirny is Counsel to McCarthy Tétrault LLP, Barristers and Solicitors and Vice Chairman of Canaccord Capital Corporation. He also is a director of a number of public entities including Fording Canadian Coal Trust, IPSCO Inc., Pengrowth Corporation, TerraVest Income Fund, Provident Energy Ltd., Computer Modelling Group, Bankers Petroleum Inc., Candax Energy Inc., Coastal Energy Co., Bayou Bend Petroleum Ltd. and Canaccord Capital Corp. In addition to his private sector experience, Mr. Zaozirny was in public service as a former Minister of Energy for the Province of Alberta.

The following Management's Discussion and Analysis ("MD&A") was prepared as of February 22, 2007 and should be read in conjunction with the audited consolidated financial statements and notes thereto of Canadian Oil Sands Trust ("Canadian Oil Sands" or the "Trust") for the years ending December 31, 2006 and December 31, 2005.

ADVISORY - in the interest of providing the Trust's Unitholders and potential investors with information regarding the Trust, including management's assessment of the Trust's future production and cost estimates, plans and operations, certain statements throughout this MD&A 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 estimated value and amount of reserves and resources; the expected impact on the Trust from the announced changes to the federal government's taxation of income trusts, including without limitation, the negative impact on net income, cash from operating activities and Unitholder distributions and on future taxes; the expected increased D&D rate; the energy consumption levels for 2007 and beyond; the expected increased reliability and other benefits from the Management Services Agreement between Syncrude Canada Ltd. and Imperial Oil Resources; the anticipated timing to reach full production rates from Coker 8-3 and to modify the FGD unit and hydrogen plant; the anticipated costs of the new marketing group being comparable to the fees paid to EnCana Corporation for marketing services; the expected impact that increased supplies of synthetic crude oil will have on the net realized selling price that Canadian Oil Sands receives for its product; the expectation not to enter into crude oil hedges in the future; the expected realized selling price for Canadian Oil Sands' product as expressed as a differential to WTI; the level of natural gas consumption; the anticipated capital expenditures for 2007 including the amount attributable to the Syncrude Emissions Reduction project; the expected timing to produce SSP; the expected price for crude oil and natural gas in 2007; the expected production, revenues and operating costs for 2007; the net sales proceeds of the disposition of the remainder of Canada Southern Petroleum Ltd.'s conventional assets; the anticipated impact that certain factors such as natural gas and oil prices, foreign exchange and operating costs have on the Trust's cash from operating activities and net income; and the expected impact of any future environmental legislation or changes to the Crown royalties regime.

You are cautioned not to place undue reliance on forward-looking statements, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will not occur. Although the Trust believes that the expectations represented by such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. Some of the risks and other factors which could cause results to differ materially from those expressed in the forward-looking statements contained in this MD&A include, but are not limited to: the impact of technology on operations and processes and how new complex technology may not perform as expected; 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 variances of stock market activities generally; normal risks associated with litigation; general economic, business and market conditions; regulatory changes; and such other risks and uncertainties described from time to time in the reports and filings made with securities regulatory authorities by the Trust.

You are cautioned that the foregoing list of important factors is not exhaustive. The discussion on proposed tax changes in trust tax legislation is based solely on the general information found in the background paper issued by Finance at the time of the October 31, 2006 announcement (which is not legislation), the guidelines issued by Finance on December 15, 2006, and the draft amendments to the ***Tax Act*** *released on December 21, 2006. No assurance can be given that the final legislation implementing the 2006 proposed tax changes will be consistent with the foregoing or that Canadian federal income tax law respecting income trusts and other flow-through entities will not be further changed in a manner which adversely affects the Trust and its Unitholders. To the extent that changes, including the 2006 proposed tax changes, are implemented, such changes could result in the income tax considerations described in this MD&A being materially different in certain respects. Furthermore, the forward-looking statements contained in this MD&A are made as of the date of this MD&A, and unless required by law, the Trust does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.*

BUSINESS DESCRIPTION

Canadian Oil Sands Trust is an open-ended investment trust that generates income from its oil sands investment in the Syncrude Joint Venture ("Syncrude"), the largest oil sands facility in the world. Our interest in Syncrude throughout 2006 and 2005 was 35.49%, but increased to 36.74% on January 2, 2007 following the acquisition of an additional 1.25% working interest. Our investment represents the largest ownership and only pure public investment opportunity in Syncrude. Syncrude, which has been in operation since 1978, is operated and administered by Syncrude Canada Ltd. ("Syncrude Canada") on behalf of the Syncrude owners. While Syncrude Canada is responsible for the daily operations of the joint venture, a Management Committee and other various committees of Syncrude Canada's Board of Directors, staffed by the Syncrude owners, oversee and approve significant Syncrude expenditures and long-term strategies.

Syncrude produces a high quality, light, sweet crude oil referred to as "Syncrude™ Sweet Blend" ("SSB") from oil sands sourced from its Base, North and Aurora North mines located in the Athabasca region of Northern Alberta. When combined with Syncrude's Aurora South lease, which has not yet been developed, Canadian Oil Sands' estimated proved plus probable reserves total 1.8 billion barrels. Syncrude's current resource estimate of approximately nine billion barrels, or three billion barrels net to the Trust, includes the proved plus probable reserves as well as contingent resources.

Syncrude's extensive oil sands leases provide a long-term source of bitumen for the production of SSB, which has an average gravity of about 32°API and less than 0.2% sulphur content. Each Syncrude owner receives its share of SSB production-in-kind and is responsible for its own marketing activities. SSB is transported by various pipelines to refineries throughout most of Canada and the United States ("U.S.").

In 2006, Syncrude's productive capacity of its bitumen extraction plants and upgrading facilities increased by 100,000 barrels per day to approximately 350,000 barrels per day, or 128 million barrels annually. The increase in capacity reflects the completion of the third phase, referred to as Stage 3, of Syncrude's multi-staged expansion plan that is aimed at achieving productive capacity in excess of 500,000 barrels per day. The Stage 3 facilities came on-line in August 2006. With the new facilities, Syncrude's estimated proved plus probable reserves life is approximately 40 years.

Syncrude's post-Stage 3 facilities have the design capability to produce approximately 375,000 barrels per day when operating at full capacity under optimal conditions and with no downtime for maintenance or turnarounds. This daily production capacity is referred to as "barrels per stream day". However, under normal operating conditions, scheduled downtime is required for maintenance and turnaround activities and unscheduled downtime will occur as a result of mechanical problems, unanticipated repairs and other shutdowns. When allowances for such downtime are included, the daily productive capacity of Syncrude's post-Stage 3 facilities is approximately 350,000 barrels per day on average and is referred to as "barrels per calendar day". Unless stated otherwise, all references to Syncrude's productive capacity in the following discussions refer to barrels per calendar day.

EXECUTIVE OVERVIEW

Canadian Oil Sands is responsible for funding our share of Syncrude's operations, expansions, and our own administrative costs. Funding sources include cash from operating activities, generated from the sale of our portion of SSB produced at the Syncrude plant and, as required and deemed appropriate, debt and equity financing. Free cash flow, which is calculated as cash from operating activities, less capital expenditures and reclamation trust contributions, is a key indicator of the Trust's ability to repay debt and pay Unitholder distributions.

Cash from operating activities is highly dependent on the net selling price received for our SSB, production and sales volumes, operating costs and other expenses, including Crown royalties. The price we receive for our product, net of crude oil purchases, transportation and marketing fees, reflects the realized selling price at the Syncrude plant gate for sales of SSB production. Historically, it has correlated closely to the U.S. West Texas Intermediate ("WTI") benchmark oil price, and also was impacted by movements in U.S./Canadian foreign exchange rates. World events and supply and demand fundamentals create volatility in crude oil prices, in addition to impacting the price differential of our SSB product relative to Canadian dollar WTI prices. The differential can move from a premium to a discount depending on the supply/demand dynamics in the market.

Production volumes reflect the capacity of the Syncrude facility and reliability of its operations. The process of mining, extracting and upgrading bitumen is a highly technical and complex operation requiring regular maintenance of the various operating units, which can affect production volumes, and consequently, revenues. Production volumes have a significant impact on per barrel operating costs as a large proportion of the costs are fixed and, if the plant is not operating, repair costs typically are also being incurred. One of the most significant production costs is natural gas; accordingly, operating costs are also sensitive to changes in natural gas prices and the consumption level of natural gas volumes in the production process.

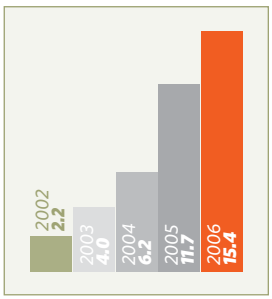
The Trust's sales volumes will differ modestly from its share of Syncrude's production volumes due to changes in inventory, which are primarily in-transit pipeline volumes. These in-transit volumes vary with current production. The growth in SSB production from the Stage 3 facilities also has required Canadian Oil Sands to access more distant markets to sell its share of SSB production, which generally increases in-transit pipeline volumes.

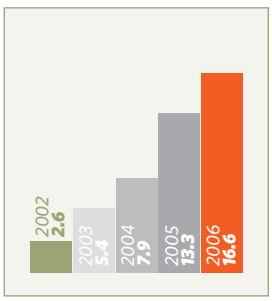
In addition to funding sustaining capital expenditures, our cash from operating activities is used to pay distributions to our Unitholders, manage debt levels relative to our net debt target, and to finance acquisitions or our share of Syncrude's expansion projects.

Management continually explores for acquisition opportunities of oil sands related assets to identify opportunities that may add value for our Unitholders. We also seek to maximize long-term Unitholder value by optimizing distributions to Unitholders. Distributions are dependent upon free cash flow, financing requirements for major sustaining capital projects and expansions, and our objective of maintaining an investment grade credit rating. Management and Canadian Oil Sands' Board of Directors feel that it is necessary to have a strong credit rating in order to finance future expansion and acquisition opportunities with minimal equity dilution, while remaining unhedged to oil prices.

In late 2006, the federal government announced its intention to impose a new tax on certain distributions from existing income and royalty trusts effective in 2011. If the

MARKET CAPITALIZATION AT DECEMBER 31
($ billions)





ENTERPRISE VALUE AT DECEMBER 31 (MARKET CAP + NET DEBT)
($ billions)

proposed changes are enacted, the Trust's Unitholder distributions will be materially impacted once the new rules are in effect. In response to these proposed trust tax rules, the larger asset base resulting from the recent acquisition of the 1.25% Syncrude working interest and the completion of the Stage 3 project, Canadian Oil Sands has adjusted its financing strategy and correspondingly revised its net debt target to about $1.6 billion, up from $1.2 billion. The increase in the net debt level should reduce the cost of capital and assist in optimizing value to the Trust's Unitholders by positioning the Trust to accelerate fuller payout of free cash flow during the transition period until the new tax rules take effect.

More information regarding Canadian Oil Sands, including our Annual Information Form ("AIF"), is available at www.sedar.com or on our website at www.cos-trust.com.

REVIEW OF SYNCRUDE OPERATIONS

Syncrude's production in 2006 was marked by the start-up of the Stage 3 facilities, which resulted in 94.3 million barrels, or approximately 33 million barrels net to the Trust, being produced. On a daily basis, 2006 production was approximately 258,000 barrels per day, or 91,600 barrels per day net to the Trust based on its 35.49% working interest. In our original 2006 guidance provided in the fourth quarter of 2005, we had anticipated production from the new Stage 3 facilities to begin the second quarter of 2006. However, during the initial start-up of the new Coker 8-3 in May 2006, odorous emissions were detected that resulted in the shutdown of that coker 10 days later. The source of the issue was identified and remediated, and by the end of August, Syncrude successfully restarted the Stage 3 operations, with Coker 8-3 running at near-design capacity rates for a portion of the third quarter. That quarter was also supported by better reliability and operating performance of the original Mildred Lake upgrading facility (the "Base Plant"). However, late in November 2006, Coker 8-2 underwent unscheduled maintenance, including a complete outage of the unit to clean internal coke deposits before it was returned to service in January 2007. This unplanned maintenance, in addition to an extended Coker 8-1 turnaround in the first quarter of 2006, reduced the impact of the incremental Stage 3 production.

Production in 2006 exceeded the prior year by 16.2 million barrels, or 5.7 million barrels net to the Trust, primarily as a result of the incremental Stage 3 production and better reliability and throughput rates from the other upgrading units in the third quarter of the year. By comparison, the prior year's lower production level reflects an extended Coker 8-2 turnaround, sulphur plant pump problems, maintenance activity on the heavy gas oil hydrotreaters, the vacuum distillation unit shutdown and throughput restrictions.

Now that the Stage 3 project is complete, with the exception of some final clean-up work, Syncrude's current focus is to reach sustained annual production of 128 million barrels, or 47 million barrels net to the Trust. To assist in achieving this objective, Syncrude Canada, as operator of the joint venture, entered into a Management Services Agreement with Imperial Oil Resources ("Imperial") on November 1, 2006. Under the agreement, Imperial will provide operational, technical and business management services to Syncrude Canada by utilizing its global expertise and association with ExxonMobil, with the goal of improving Syncrude's operating reliability and performance. Imperial has a vested interest through its 25% ownership in Syncrude.

The agreement is effective November 1, 2006 and has an initial term of 10 years with five-year renewal provisions, but can be cancelled at any time by either Imperial or Syncrude Canada upon 24 months notice. An opportunity assessment team ("OAT") comprised of experts from Syncrude, Imperial, ExxonMobil, and some of the other

Syncrude owners, including Canadian Oil Sands, has been formed and is conducting a comprehensive onsite assessment of the Syncrude operations in the first quarter of 2007. The mandate of this team is to better understand, prioritize and define best approaches for implementing potential opportunities. In the second quarter of 2007, the OAT is expected to make specific recommendations to the Syncrude owners. If the recommendations that are approved by the Syncrude owners are not to the reasonable satisfaction of Imperial, then Imperial can terminate the Management Services Agreement.

For the first 10 years of the agreement, Canadian Oil Sands is committed to pay its 36.74% pro-rata share of the approximately $47 million annual fixed service fees, or $17 million net to Canadian Oil Sands, in addition to its share of the direct costs incurred by Imperial in providing the services to Syncrude Canada. Following the initial 10 year period, the annual fixed service fees drop to $33 million, or approximately $12 million net to the Trust. After the first three years and to the end of the tenth year, variable fees based on the achievement of certain performance targets also apply. Syncrude Canada would be required to pay such variable fees, in a range comparable to the fixed fee component, to the extent there was a corresponding benefit realized through higher production and/or lower per barrel operating costs in each year. The fixed fee component for the first 10 years of the agreement has been included as a commitment of the Trust in the "Contractual Obligations and Commitments" section of this MD&A.

The agreement also promotes Syncrude's growth plans to increase its productive capacity to over 500,000 barrels per day by engaging the Syncrude owners to pursue the scope design of the currently proposed Stage 3 debottleneck and Stage 4 expansions.

SELECTED ANNUAL FINANCIAL INFORMATION

($ millions, except per Trust Unit amounts)	*2006*	*2005*	*2004*
Revenues, after crude oil purchases, transportation and marketing expense	2,432	1,967	1,352
Net income	834	831	509
Net income per Trust Unit, Basic[1]	1.79	1.81	1.14
Net income per Trust Unit, Diluted[1]	1.78	1.80	1.14
Cash from operating activities	1,142	949	594
Cash from operating activities per Trust Unit[1]	2.45	2.07	1.33
Total assets	6,532	5,925	5,068
Net debt[2]	1,291	1,649	1,682
Total other long-term financial liabilities[3]	273	241	136
Unitholder distributions per Trust Unit[1]	1.10	0.40	0.40

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

2 Long-term debt less cash and cash equivalents.

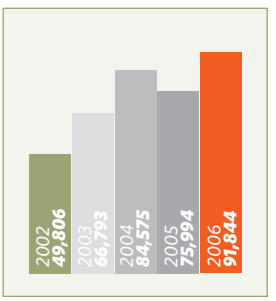
3 Includes employee future benefits and other liabilities as well as the asset retirement obligation.

In order to provide meaningful information to our Unitholders, the focus of our MD&A is to provide explanations of material variances in our financial results and significant events that have occurred since December 31, 2005. Canadian Oil Sands considers material information to be any information relating to the business of the Trust and its subsidiaries that would reasonably be expected to have a significant influence on an investor's investment decision. We believe users of our financial results consider material information

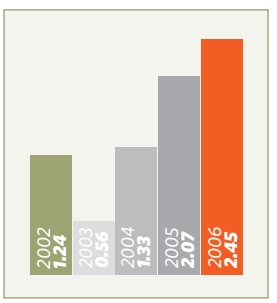
to be that which impacts the Trust's net income, net income, cash from operating activities and free cash flow, which is available for distribution to Unitholders, for reinvestment in growth through expansions or acquisitions, or for repayment of debt. We endeavour to identify and provide in our MD&A, financial statements, and guidance documents on a timely basis and in an understandable form, the factors that impact our net income, cash from operating activities and free cash flow, namely: crude oil prices, production and sales volumes, our SSB net realized selling prices relative to WTI prices, hedging impacts, costs of operations, financing costs, capital and other relevant costs.

In each of 2006, 2005 and 2004, the financial results of Canadian Oil Sands reflect a 35.49% working interest in the Syncrude Joint Venture. The financial results do not include the additional 1.25% working interest acquired by Canadian Oil Sands from Talisman Energy Inc. ("Talisman") on January 2, 2007. All Trust unit ("Unit") information has been adjusted to reflect the 5:1 Unit split, which occurred on May 3, 2006. In the last half of 2006, Canadian Oil Sands acquired Canadian Arctic Gas Ltd., formerly Canada Southern Petroleum Ltd. ("Canadian Arctic"). The results of operations related to Canadian Arctic's conventional oil and gas assets are reflected in "Loss from discontinued operations" on the Trust's Consolidated Statement of Income and Unitholders' Equity.

CANADIAN OIL SANDS AVERAGE DAILY SALES
(bbls per day)



An important change in this MD&A compared to that of prior years is that we now are discussing "cash from operating activities", as per the Trust's Consolidated Statements of Cash Flows, as our measure of the Trust's ability to generate cash from operations. Previously Canadian Oil Sands reported "funds from operations", which did not include changes in non-cash working capital from operating activities and was not considered a Canadian generally accepted accounting principles ("GAAP") measure. Cash from operating activities provides similar information to funds from operations and better comparability to other reporting entities as it is a GAAP measure.



CASH FROM OPERATING ACTIVITIES
($ per Unit)

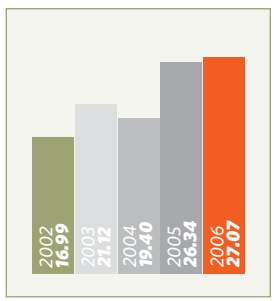
Revenues, after crude oil purchases, transportation and marketing expense, reflect the additional Stage 3 volumes that came on stream in August 2006, supported by a higher average realized selling price for our SSB product. Canadian Oil Sands' daily sales volumes averaged approximately 91,800 barrels, an increase of 21% compared to 2005, and of 9% over 2004. Prior to 2006, Syncrude's highest production levels were in 2004, reflecting an unusual year without a coker turnaround. Comparatively, Coker 8-1 and Coker 8-2 underwent turnarounds in 2006 and 2005, respectively. As well in 2005, sulphur plant pump problems, maintenance activity on the heavy gas oil hydrotreaters, the vacuum distillation unit shutdown and throughput restrictions all served to reduce production in that year.

An increase in the average realized selling price reflects similar increases in WTI prices, which averaged US$66.25 per barrel, US$56.70 per barrel, and US$41.47 per barrel in each of 2006, 2005 and 2004, respectively. The full impact of the higher 2006 WTI benchmark price was not realized in 2006 due to a weakening of the SSB price differential to WTI as well as a strengthening of the Canadian dollar relative to the U.S. dollar, which averaged $0.88 US/Cdn in 2006, up from $0.83 and $0.77 in 2005 and 2004, respectively. In 2006, our SSB product traded at an average discount of $2.57 per barrel to Canadian dollar WTI prices compared with a premium of $1.05 per barrel in 2005 and a discount of $1.53 per barrel in 2004. We believe the movement in the differential primarily reflects varying supply levels of light synthetic crude oil from a number of producers over the past three years. Supply rose as additional production came on stream from new oil sands projects, including Syncrude's Stage 3 expansion, and decreased during periods when producers were going through turnarounds or experiencing difficulties in their production facilities.

The increase in revenues, after crude oil purchases, transportation and marketing expense, was the primary reason for the overall increase in net income and cash from operating activities in 2006 compared with the two prior years. However, partially offsetting the increase in 2006 revenues were increases to Crown royalties, operating costs, depreciation, depletion and accretion ("DD&A") expense, and future income tax expense, combined with lower foreign exchange gains relative to both 2005 and 2004. The increase in DD&A and future income tax expense and the reduction in the unrealized portion of the foreign exchange gains in 2006 reduced the Trusts' net income, but did not impact cash from operating activities. Crown royalties rose to $232 million, or $6.93 per barrel in 2006, reflecting the shift in May 2006 to the higher royalty rate of 25% of net revenues compared to the minimum 1% of gross revenues that had been in place for 2005 and 2004, which resulted in Crown royalties of $19 million, or $0.71 per barrel, and $18 million, or $0.58 per barrel, in each of those years, respectively.

Operating costs were $907 million, or $27.07 per barrel, in 2006, compared with $731 million, or $26.34 per barrel in 2005, and $601 million, or $19.40 per barrel in 2004. Equipment and staff to support Syncrude's Stage 3 operations were in place throughout 2006, although production from the new facilities was not established until the end of August 2006, which contributed to higher production costs of $20.97 per barrel, compared to $19.25 per barrel and $15.16 per barrel in 2005 and 2004, respectively. Purchased energy accounted for $6.10 per barrel of the total operating costs, slightly lower than $7.09 per barrel in 2005, but higher than $4.24 per barrel recorded in 2004. While the cost of natural gas was comparable in each of 2006 and 2004 at approximately $6 per gigajoule ("GJ"), consumption per barrel in 2006 was substantially higher, reflecting larger volumes being mined at the Aurora mine, which relies mainly on purchased gas for its energy needs, as well as increased use of purchased natural gas while the Stage 3 facilities were being brought on-line compared to 2004. Purchased energy costs were higher in 2005 than both 2006 and 2004, primarily reflecting an average natural gas price of $8.40 per GJ.

OPERATING COSTS
($ per bbl)



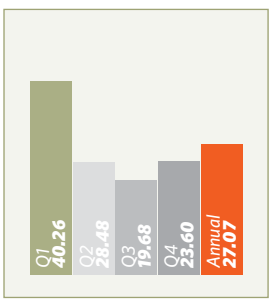
DD&A expense increased in 2006 relative to the two prior years because of a higher depreciation and depletion ("D&D") rate and larger production volumes. The per barrel D&D rate was $7.34, $6.11, and $5.50 in each of 2006, 2005 and 2004, respectively, as a result of increasing Stage 3 capital costs and higher future development costs. Unrealized foreign exchange gains were $1 million in 2006, a decrease of $35 million and $88 million compared to 2005 and 2004 as the Canadian dollar strengthened more in 2005 and 2004, resulting in larger gains in each of those years. Future income tax reduced net income by $18 million in 2006 compared to a reduction of only $1 million in 2005 and an increase of $27 million in 2004.

Total assets continued to increase significantly in 2006 compared to 2005, reflecting a build in the Trust's cash balance of $265 million at year-end, of which $237 million was paid to Talisman on January 2, 2007 to satisfy the cash component of the additional Syncrude interest acquisition. Capital assets increased by $237 million, reflecting both capital expenditures for our share of Syncrude's capital program in excess of depreciation and depletion, as well as the acquisition of the Arctic gas properties of Canadian Arctic during 2006. The Canadian Arctic acquisition increased capital assets by $165 million and goodwill by $52 million. In 2005 and 2004, our share of Syncrude's capital expenditures, largely related to the Stage 3 capital program, increased capital assets by approximately $800 million and $942 million, respectively. Accounts receivable rose at December 31, 2006 due to the higher SSB sales volumes and sales price, compared to December 31 in each of 2005 and 2004.

Total other long-term financial liabilities rose substantially at the end of 2006 and 2005 compared to 2004 year-end mainly due to an increase in the asset retirement obligation ("ARO") in 2006 and 2005. Each of the Syncrude owners are liable for their share of ongoing environmental obligations for the ultimate reclamation of the Syncrude project. The ARO represents the present value estimate of Canadian Oil Sands' share of these costs, which, as at December 31, 2006, increased to $173 million from $148 million and $44 million at year-end 2005 and 2004, respectively.

Syncrude's undiscounted estimate of the total cash flows required to settle the Trust's share of the obligation rose to $595 million at December 31, 2006 from $525 million at December 31, 2005 and $275 million at December 31, 2004. The increases in 2006 and 2005 from 2004 are mainly the result of revised assumptions regarding the volume of reclamation material required and the costs associated with storing and handling the additional material. Cost escalation associated with revegetation, landforming, and additional regional drainage requirements also contributed significantly to the estimate increases. In addition, adjustments totalling $37 million were recorded in 2005 to correct the Trust's ARO balance.

2006 QUARTERLY OPERATING COSTS
($ per bbl)



Cost escalation, particularly as a result of inflationary pressures in the Fort McMurray area, has been a significant trend that has arisen over the last few years. The Trust's D&D rate, ARO, operating and capital costs have all been impacted by higher cost of materials and services and the associated costs of labour shortages. We anticipate these inflationary pressures will continue in light of the significant level of oil sands activity that is expected, particularly over the next three years as the other major oil sands projects are completed.

Net debt at December 31, 2006 decreased to $1.3 billion from $1.6 billion at December 31, 2005 as a result of a larger cash balance at year-end and repayment of amounts owing on the Trust's credit facilities in 2006 compared to the prior year-end. Net debt at December 31, 2005 fell slightly from December 31, 2004 as funds from operations in 2005 were more than sufficient to cover capital expenditures and distributions, and a stronger Canadian dollar reduced the carrying value of our U.S. dollar denominated long-term debt.

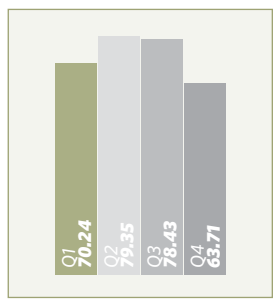
SUMMARY OF QUARTERLY RESULTS

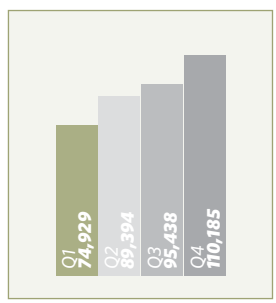
Quarterly variances in revenues, net income, and cash from operating activities are caused mainly by fluctuations in crude oil prices, production and sales volumes, production costs, and natural gas prices. Net income is also impacted by non-cash foreign exchange gains and losses caused by fluctuations in foreign exchange rates on our U.S. dollar denominated debt and by future income tax changes. While the supply/demand balance for crude oil affects selling prices, the impact of this equation is difficult to predict and quantify and has not displayed significant seasonality. A large proportion of operating costs are fixed, and as such, per barrel operating costs are highly variable to production volumes. Maintenance and turnaround activities are typically scheduled to occur in the first or second quarter. However, the exact timing of unit shutdowns cannot be precisely scheduled, and unplanned outages will occur. As a result, production levels also may not display reliable seasonality patterns or trends. Maintenance and turnaround costs are expensed in the period incurred and can lead to significant increases in operating costs and reductions in production in those periods, as demonstrated by the high per barrel operating costs, particularly in the first quarters of 2006 and 2005. Natural gas prices are typically higher in winter months as heating demand rises, but this seasonality is significantly influenced by weather conditions and North American natural gas inventory levels.

($ millions, except where otherwise noted)	Q1	Q2	2006 Q3	Q4	Annual
Revenues, after crude oil purchases, transportation and marketing expense	473	624	689	646	2,432
Net income	91	337	278	128	834
Net income per Trust Unit, Basic	0.20	0.72	0.60	0.27	1.79
Net income per Trust Unit, Diluted	0.20	0.72	0.59	0.27	1.78
Cash from operating activities	187	209	334	412	1,142
Cash from operating activities per Trust Unit	0.40	0.45	0.72	0.88	2.45
Net realized selling price *($/bbl)*	70.24	79.35	78.43	63.71	72.56
Operating costs *($/bbl)*	40.26	28.48	19.68	23.60	27.07
Daily average sales volumes *(bbls/d)*	74,929	86,394	95,438	110,185	91,844

($ millions, except where otherwise noted)	Q1	Q2	2005 Q3	Q4	Annual
Revenues, after crude oil purchases, transportation and marketing expense	344	492	612	519	1,967
Net income	59	218	380	174	831
Net income per Trust Unit, Basic	0.13	0.48	0.83	0.38	1.81
Net income per Trust Unit, Diluted	0.13	0.48	0.83	0.37	1.80
Cash from operating activities	105	199	364	281	949
Cash from operating activities per Trust Unit	0.23	0.43	0.79	0.61	2.07
Net realized selling price *($/bbl)*	63.66	68.03	77.43	72.07	70.91
Operating costs *($/bbl)*	38.13	21.35	23.61	25.54	26.34
Daily average sales volumes *(bbls/d)*	59,897	79,506	85,942	78,318	75,994

2006 QUARTERLY REALIZED SELLING PRICE
($ per bbl)





2006 QUARTERLY DAILY AVERAGE SALES VOLUMES
(bbls per day)

Higher revenues, after crude oil purchases, transportation and marketing expense, in the last half of 2006 reflect the additional Stage 3 volumes, which came on at the end of August 2006. The unplanned maintenance on Coker 8-2 that occurred in the latter half of the fourth quarter reduced the full impact of higher Stage 3 volumes and increased operating costs. The third quarter of 2006 reflected reliable operations and the start-up of the Stage 3 facilities, which resulted in lower operating costs on a per barrel basis relative to the other quarters in 2006 and 2005. The increased volumes in the third quarter of 2006 were supported by strong selling prices for our SSB, reflecting robust WTI prices averaging US$70.60 per barrel, which generated $689 million in revenues. In the second quarter of 2006, we realized $79.35 per barrel on our SSB sales, which also resulted in increased revenues compared to 2005. In each of the first quarters of 2006 and 2005, production was impacted by significant turnaround schedules, thereby reducing revenues and increasing operating costs.

During the second quarter of 2006, Crown royalties shifted to the higher rate of 25% of net revenues, compared to the minimum 1% of gross revenues that had been in place since January 1, 2002. The 2006 third and fourth quarter results reflect the full impact of the higher Crown royalty expense compared to the second quarter of 2006, which included only one month at the higher rate.

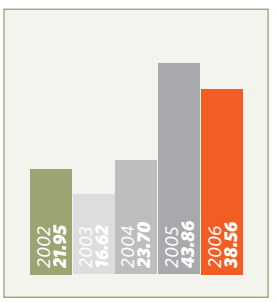
Foreign exchange gains and future income tax recoveries of $46 million and $29 million, respectively, in the second quarter of 2006 increased net income relative to the other quarters in the year. Comparatively, in the third quarter of 2005, a $53 million foreign exchange gain contributed to net income totalling $380 million, or $0.83 per Unit.

Canadian Oil Sands' unaudited fourth quarter 2006 results have been discussed and analyzed in our MD&A released on January 29, 2007 and filed with the Trust's January 29, 2007 press release, which is available at www.sedar.com.

REVIEW OF CONSOLIDATED RESULTS

Canadian Oil Sands reported net income in 2006 similar to 2005, but higher cash from operating activities. Net income was $834 million, or $1.79 per Unit, in 2006 compared to $831 million, or $1.81 per Unit in the prior year. Cash from operating activities rose to $1.1 billion, or $2.45 per Unit, from $0.9 billion, or $2.07 per Unit, in 2005. The improved cash from operating activities reflects larger sales volumes in 2006, supported by a slightly higher average sales price for our SSB product. Higher revenues in 2006 were partially offset by increases in operating costs, Crown royalties, DD&A and future income tax expense compared to 2005, as well as lower foreign exchange gains than 2005, as shown in the table below. Cash from operating activities was impacted by the same factors, excluding DD&A, unrealized foreign exchange gains, and future income taxes as they are non-cash items.

NETBACK AFTER HEDGING
($ per bbl)



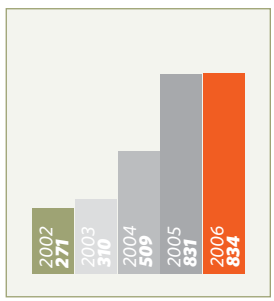
($ per bbl)	*2006*	*2005*	*$ Change*
Net realized selling price	72.56	70.91	1.65
Operating costs	(27.07)	(26.34)	(0.73)
Crown royalties	(6.93)	(0.71)	(6.22)
Netback	38.56	43.86	(5.30)
Non-production costs	(2.08)	(3.06)	0.98
Administration and insurance	(0.65)	(0.73)	0.08
Interest, net	(2.93)	(3.74)	0.81
Depletion, depreciation and accretion	(7.61)	(7.13)	(0.48)
Foreign exchange gain	0.16	1.05	(0.89)
Current and future income tax	(0.53)	(0.29)	(0.24)
	(13.64)	(13.90)	0.26
Net income per barrel	24.92	29.96	(5.04)
Sales volumes (MMbbls)	33.5	27.7	5.8

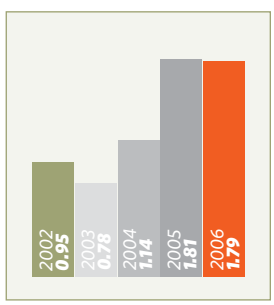
Net income before unrealized foreign exchange gains and future income tax expense, which management believes is a better measure of operational performance than net income, was $851 million, or $1.83 per Unit in 2006, an improvement of $55 million, or $0.10 per Unit compared to the prior year. The following table reconciles this measure to net income.

($ millions)	2006	2005	$ Change
Net income per GAAP	834	831	3
Add (Deduct):			
Unrealized foreign exchange gain	(1)	(36)	35
Future income tax expense	18	1	17
Net income before unrealized foreign exchange and future income taxes	851	796	55

The net income before unrealized foreign exchange and future income taxes reflected in the previous table is a measurement that is not defined by GAAP. The Trust also reports funds from operations, free cash flow, and Unitholder distributions on both a total and per Unit basis, as well as cash from operating activities per Unit, which are all measures that do not have any standardized meaning under Canadian GAAP. Funds from operations are calculated on the Trust's consolidated statement of cash flows as cash from operating activities before changes in operating non-cash working capital. Free cash flow is now calculated as cash from operating activities less capital expenditures and reclamation trust contributions in the period. The net income before foreign exchange and future income taxes in the previous table and the Trust's funds from operations and free cash flow may not be directly comparable to similar measures presented by other companies or trusts.

NET INCOME
($ millions)





NET INCOME - BASIC
($ per Unit)

Consolidated results compared to the prior year's annual report Outlook

The Trust provides estimates of its anticipated financial and operating results for the next fiscal year in our annual report, and we revise this guidance throughout the year in our quarterly reports and information releases to reflect actual operating results and new information as it becomes available.

The Trust's $1.1 billion funds from operations in 2006 were 15% higher than the $970 million guidance in the 2005 annual report. Higher net revenue, partially offset by a related increase in Crown royalties, was the main factor contributing to the strong 2006 performance.

Total revenues, after crude oil purchases, transportation and marketing expense, in 2006 were $2.4 billion, exceeding our Outlook estimate of $2.3 billion. The better than expected results reflected WTI prices that averaged US$66.25 per barrel, compared to our US$55 per barrel forecast. The higher crude oil prices more than offset the lower Syncrude production volumes and stronger Canadian dollar relative to our estimated $0.85 US/Cdn foreign exchange rate. Syncrude production of 94.3 million barrels was lower than our original 100 million barrel guidance. Higher Crown royalties of $232 million, compared to our estimate of $183 million, corresponded with the higher actual revenues recorded in the year.

Our operating cost estimate for 2006 was $25.88 per barrel, based on a natural gas cost of $10.78 per GJ and the 100 million barrel Syncrude annual production estimate. By October 24, 2006, we had revised our operating cost outlook to $26.29 per barrel to account for lower than anticipated production and higher natural gas consumption volumes, partially offset by a decrease in estimated 2006 natural gas prices to $6.50 per GJ. Actual costs of $27.07 per barrel were slightly higher than the revised guidance, primarily as a result of the unplanned maintenance on Coker 8-2, which occurred in late November and extended through to January 2007.

Actual capital expenditures in 2006 were $300 million, similar to the forecast amount of $303 million.

Revenues, after Crude Oil Purchases, Transportation and Marketing Expense

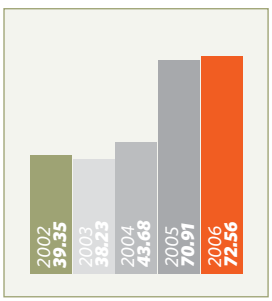
($ millions)	2006	2005	$ Change	% Change
Sales revenue[1]	2,672	1,995	677	34
Crude oil purchases	(219)	(12)	(207)	1,725
Transportation and marketing expense	(41)	(40)	(1)	2
	2,412	1,943	469	24
Currency hedging gains[1]	20	24	(4)	(17)
	2,432	1,967	465	24
Sales volumes (MMbbls)	33.5	27.7	5.8	21

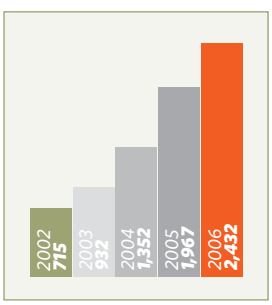
1 *The sum of sales revenue and currency hedging gains equals Revenues on the Trust's consolidated statement of income.*

($ per barrel)	2006	2005	$ Change	% Change
Realized selling price before hedging[2]	71.96	70.08	1.88	3
Currency hedging gains	0.60	0.83	(0.23)	(28)
Net realized selling price	72.56	70.91	1.65	2

2 *Sales revenue, after crude oil purchases, transportation and marketing expense divided by SSB sales volumes, net of crude oil volumes purchased.*

NET REALIZED SELLING PRICE
($ per bbl)





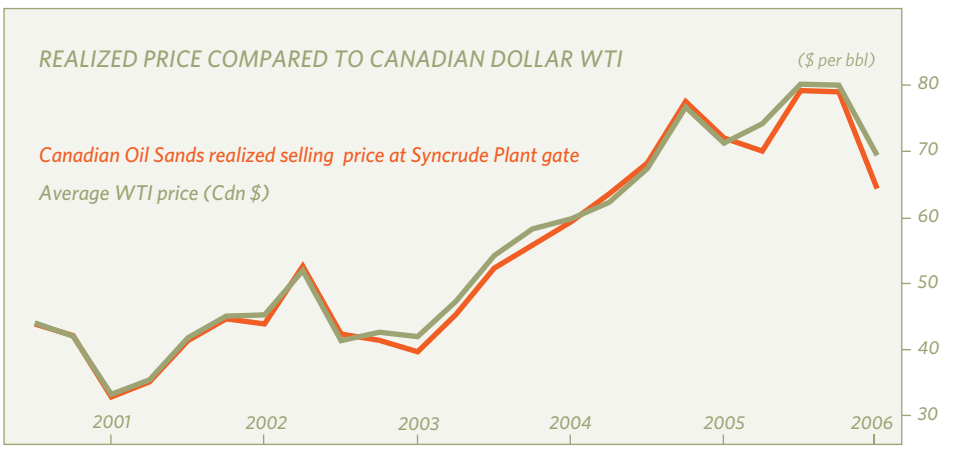
REVENUES AFTER CRUDE OIL PURCHASES, TRANSPORTATION AND MARKETING EXPENSE AND HEDGING
($ millions)

Following the expiry of the marketing services agreement between Canadian Oil Sands and EnCana Corporation ("EnCana") on August 31, 2006, Canadian Oil Sands marketed its share of Syncrude's production utilizing its own marketing department. The costs of this new marketing group are included in Administration expenses. These in-house expenses are expected to be comparable to the costs Canadian Oil Sands previously paid to EnCana to market its crude oil and related products, which were included in "Transportation and marketing expense".

Also commencing in the third quarter of 2006, the Trust started to separately disclose its crude oil purchases, which had previously been netted from sales revenue. Prior year information has been reclassified for comparative purposes. Canadian Oil Sands purchases crude oil from third parties to fulfill sales commitments with customers when there are shortfalls in Syncrude's production forecasts and to expand and develop long-term markets for our synthetic crude oil to support the sales of our SSB product. In addition, we buy crude oil to execute purchase and sales transactions mainly to facilitate crude oil location swaps, meet single shipper pipeline requirements or utilize a third party's pipeline capacity or preferred tariff. The majority of the crude oil purchases in 2006 related to purchase and sales transactions, which involved selling crude oil to a counterparty and then buying a similar volume of oil back as part of a physical crude oil swap with minimal price risk.

The $469 million increase in 2006 revenues, after crude oil purchases, transportation and marketing expense and before currency hedging, reflected both an increase in sales volumes and a higher average realized SSB selling price. Sales volumes net of purchases averaged 91,800 barrels per day in 2006 compared to 76,000 barrels per day in 2005. This 21% increase reflects the increase in Syncrude production during the year, as explained in the "Review of Syncrude Operations" section of this MD&A. The year-over-year 3% increase in the average realized selling price before currency hedging gains is a result of a 17% rise in average WTI prices to US$66.25 per barrel in 2006, offset considerably by a weakening of our net realized selling price relative to WTI and a

strengthening of the Canadian dollar relative to the U.S. dollar. Foreign exchange rates averaged $0.88 US/Cdn in 2006 compared to $0.83 US/Cdn in 2005. Our SSB price differential to Canadian dollar WTI in 2006 averaged a discount of $2.57 per barrel, compared to a premium of $1.05 per barrel in the prior year. The shift in differentials primarily reflects the additional supply of synthetic crude oil in the market in 2006 compared to 2005. We are anticipating our annual SSB price differential to average a discount to Canadian dollar WTI of $4.00 per barrel in 2007 as a result of the additional supply of synthetic crude oil from the various oil sands producers, including Syncrude.



Operating Costs

The following table breaks down unit operating costs into its major components and shows bitumen costs on both a per barrel of bitumen and per barrel of SSB produced basis. This allows investors to better compare Syncrude's unit costs to other oil sands producers.

	2006		2005	
	$ per bbl Bitumen	$ per bbl SSB	$ per bbl Bitumen	$ per bbl SSB
Bitumen Costs[1]				
Overburden removal	2.09		1.82	
Bitumen production	7.50		7.39	
Purchased energy[2]	2.64		3.18	
	12.23	14.47	12.39	14.95
Upgrading Costs[3]				
Bitumen processing and upgrading		4.89		3.93
Turnaround and catalysts		2.20		2.53
Purchased energy[2]		2.98		3.25
		10.07		9.71
Other and research		1.92		1.93
Change in treated and untreated inventory		0.25		(0.46)
Total Syncrude operating costs		26.71		26.13
Canadian Oil Sands adjustments[4]		0.36		0.21
Total operating costs		27.07		26.34
Syncrude production volumes (thousands of barrels per day)	305	258	258	214

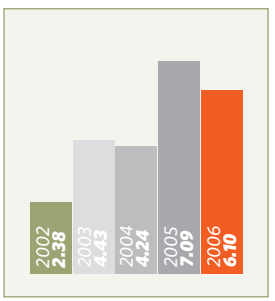
1 *Bitumen costs relate to the removal of overburden, oil sands mining, bitumen extraction and tailings dyke construction and disposal costs. The costs are expressed on a per barrel of bitumen production basis and converted to a per barrel of SSB based on the current period's production of SSB. The cost difference reflects the yield of SSB from processing and upgrading as well as changes in bitumen and treated and untreated inventory. All overburden stripping costs are expensed in the period incurred.*

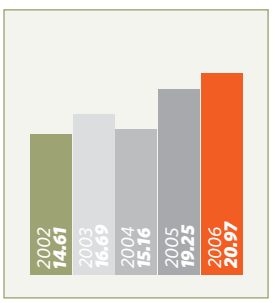
2 *Natural gas costs averaged $6.26 per GJ and $8.40 per GJ in 2006 and 2005, respectively.*

3 *Upgrading costs include the production and ongoing maintenance costs associated with processing and upgrading of bitumen to SSB. It also includes the costs of major refining equipment turnarounds and catalyst replacement, which are expensed.*

4 *Canadian Oil Sands' adjustments mainly pertain to Syncrude-related pension costs, property insurance costs, site restoration costs, as well as the inventory impact of moving from production to sales as Syncrude reports per barrel costs based on production volumes and we report based on sales volumes.*

PURCHASED ENERGY COSTS
($ per bbl, before hedging)





PRODUCTION COSTS
($ per bbl)

The operating cost table indicates the most significant changes in 2006 over 2005 resulted from the increases in bitumen processing and upgrading costs, including the amounts from the change in treated and untreated inventory, partially offset by reduced purchased energy costs in the bitumen and upgrading areas of the operation. As a result of the new Stage 3 facilities, more infrastructure and a larger workforce were in place in 2006 than 2005. However, since production from the new facilities did not come on stream until the last four months of 2006, the per barrel production costs increased. In addition, costs were generally higher in 2006 compared to 2005 due to the inflationary pressures in the Fort McMurray area.

Purchased natural gas is a significant component of the bitumen production and upgrading processes. Year-over-year, the decline in purchased energy costs of approximately $1 per barrel, as shown in the following table, reflects the reduction in natural gas prices of $2.14 per GJ, which more than offset the increase in consumption. The increase in consumption to 0.98 GJs per barrel is attributable to increased bitumen volumes sourced at the Aurora mine, and increased use of purchased natural gas for items such as steam generation during start-up of the Stage 3 facilities, which are highly integrated. Purchased energy consumption per barrel is expected to decline from levels recorded in 2006 once the Stage 3 operations have stabilized but consumption is expected to remain higher than historical norms. We estimate that long-term consumption going forward will be about 0.85 GJs per barrel as additional hydrogen, which is derived from natural gas, will eventually be used to increase product quality from SSB to "Syncrude™ Sweet Premium" ("SSP") and as bitumen is increasingly sourced from the Aurora mine. The Aurora mine relies mainly on purchased natural gas for its energy needs as process heat from the upgrader is unavailable due to the mine's distance from the Mildred Lake plant.

Included in "Other and research" in the operating cost table is the cost of Syncrude's incentive compensation and employee retention programs. Syncrude's incentive compensation is based on the market return of some of the Syncrude owners' units/shares, and therefore, can fluctuate from year-to-year. Such amounts were lower in 2006 than the prior year, reflecting lower performance of the owners' units/shares relative to 2005. Offsetting this reduction were costs accrued for the new employee retention program Syncrude introduced in 2006. Many oil sands operators have introduced similar programs, which are designed to retain experienced employees in the competitive Fort McMurray labour market.

($ per bbl of SSB)	2006	2005	Change	% Change
Production costs	20.97	19.25	1.72	9
Purchased energy	6.10	7.09	(0.99)	(14)
Total operating costs	27.07	26.34	0.73	3
(GJs per bbl of SSB)			Change	% Change
Purchased energy consumption	0.98	0.84	0.14	17

Non-Production Costs

Non-production costs consist primarily of development expenditures relating to capital programs, which are expensed, such as: research and development, commissioning costs, pre-feasibility engineering, technical and support services, and regulatory and stakeholder consultation expenditures. Non-production costs decreased to $70 million from $85 million in 2006 and 2005, respectively, as there were fewer costs related to the commissioning and start-up of Stage 3 with the completion of that project earlier in 2006. In the prior year, the project was nearing completion and additional costs were being incurred as more of the units associated with the project were being commissioned.

Crown Royalties Expense

Under Alberta's generic Oil Sands Royalty, the Crown royalty is calculated as the greater of 1% of gross plant gate revenue before hedging, or 25% of gross plant gate revenue before hedging, less Syncrude operating, non-production and capital costs. For the year ended December 31, 2006, Crown royalties were $232 million, or $6.93 per barrel, an increase of $213 million, or $6.22 per barrel, compared to 2005. The increase in 2006 Crown royalties reflects both the shift in royalty rate to 25% of net revenues from the minimum 1% of gross revenues, which occurred in the second quarter of the year, and the increased net revenues on an annual basis from the higher production volumes and increase in the average realized selling price.

Administration Expense

Administration expense rose to $17 million in 2006 from $12 million recorded in the prior year, primarily reflecting increased salaries and benefits resulting from higher compensation levels and additional employees hired in 2006 to staff the Trust's new marketing group.

Interest Expense, Net

($ millions)	2006	2005	$ Change	% Change
Interest expense on long-term debt	102	107	(5)	(4)
Interest income and other	(4)	(3)	(1)	48
Interest expense, net	98	104	(6)	(6)

Net interest expense decreased by $6 million in 2006 compared to 2005, primarily reflecting lower average net debt levels as the Trust repaid amounts owing on its credit facilities in 2006.

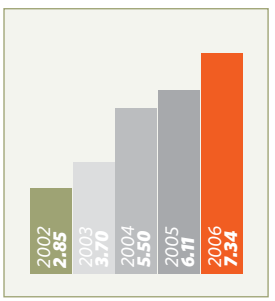
Depreciation, Depletion and Accretion Expense

($ millions)	2006	2005	$ Change	% Change
Depreciation and depletion	246	169	77	46
Accretion expense	9	29	(20)	(69)
	255	198	57	29

We depreciate and deplete our production assets and future development costs on a unit-of-production basis, based on proved plus probable reserves as National Instrument 51-101 provides that the total of proved plus probable reserves is the most likely estimate of an entity's reserves base.

Annually, the $77 million increase to D&D expense reflects the 21% increase in Syncrude production and a higher 2006 per barrel D&D rate. The 2006 D&D rate was approximately $7.34 per barrel, compared to $6.11 per barrel in 2005, which primarily reflects higher actual Stage 3 capital expenditures and increased estimates of other future development costs, as provided for in the Trust's December 31, 2005 independent reserves report.

DEPRECIATION AND DEPLETION EXPENSE
($ per bbl)



Subsequent to December 31, 2006, Canadian Oil Sands' 2006 reserves report was completed by independent reserve evaluators. Other than 2006 production, the reserves report resulted in no significant revisions in our reserves base with proved plus probable reserves totalling 1.8 billion barrels, based on the Trust's 35.49% working interest at December 31, 2006. We anticipate our D&D rate to increase to approximately $8 per barrel for 2007, or approximately $330 million based on our 2007 production outlook of 40.4 million barrels net to the Trust. An increase in future development cost estimates in our 2006 reserves report, mainly as a result of the higher cost environment, and the January 2, 2007 working interest acquisition from Talisman, which increased the Trust's assets, are the main factors contributing to the expected D&D rate increase in 2007. The Trust's December 31, 2006 independent reserves report is summarized in the Trust's Annual Information Form and can be found at www.sedar.com, or on our website at www.cos-trust.com.

Accretion expense, which relates to our ARO liability, was significantly lower in 2006 compared to 2005 as the prior year included a $27 million adjustment to correct accretion expense. Excluding the prior year adjustment, accretion expense in 2006 was slightly higher than 2005 as a result of the higher ARO liability outstanding at December 31, 2005.

The Trust recorded an $18 million increase to its ARO liability and corresponding asset at December 31, 2006, which reflects increased cost estimates for its share of Syncrude's future reclamation costs. In addition, the acquisition of the additional working interest on January 2, 2007 will increase the Trust's ARO liability and related asset in 2007 by approximately $6 million. As a result, total accretion expense in 2007 is expected to be marginally higher compared to 2006 at approximately $11 million.

Canadian Oil Sands deposits $0.1322 per barrel of production into a mining reclamation trust account for its 35.49% Syncrude working interest. Including interest earned on the trust account, the reclamation fund account totalled $30 million at December 31, 2006, as shown on the Consolidated Balance Sheet under the heading "Reclamation trust". We anticipate increasing our reclamation funding starting in 2007 for the additional 1.25% Syncrude working interest we acquired on January 2, 2007.

Foreign Exchange Gains and Losses

As required by GAAP, U.S. denominated monetary balances are revalued at the foreign exchange rate at each period end, and the translation gains or losses are recorded in the current period's net income.

During 2006 and 2005, we had US$944 million of U.S. denominated long-term debt. Foreign exchange gains in each of those years are mainly the result of revaluations of this U.S. dollar denominated debt caused by fluctuations in U.S. and Canadian exchange rates. Unrealized foreign exchange gains on long-term debt of $1 million and $36 million were recorded in 2006 and 2005, respectively, as the Canadian dollar strengthened from the prior year-end in each of these years. We also have U.S. denominated cash, accounts receivable, and interest payable accounts that are revalued at the end of each period. Transactions on these accounts give rise to realized foreign exchange gains and losses, which comprise the remaining balance of the foreign exchange gains on the income statement.

Large Corporations Tax and Other

In the second quarter of 2006, the federal government enacted legislation eliminating federal capital tax, retroactive to January 1, 2006.

The Trust and its operating subsidiaries are structured to minimize the incidence of income tax. Trust income is sheltered by taxable distributions to Unitholders. Distributions made from the Trust are classified as either "taxable" or "tax-deferred". Rather than being treated as taxable income in the year the distributions are received, tax-deferred distributions reduce the Unitholders' tax-cost base. In 2006, 97% of distributions were taxable, and 3% were tax-deferred, similar to the prior year.

Under current tax legislation, the taxable portion of distributions is partially dependent upon income and tax deductions available to shelter this income at both the Trust and the subsidiary level. The tax balances available for deduction are disclosed in Note 11 to the audited Consolidated Financial Statements. The federal government's recently proposed tax changes for income trusts will have a substantial impact on the taxability of the Trust if legislated, as discussed in the "Proposed Changes in Tax Legislation" section of this MD&A.

Future Income Tax

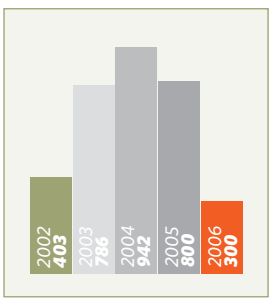
The difference between the accounting basis and tax basis for assets and liabilities is referred to as a temporary difference for purposes of calculating future income taxes. The future income tax liability of Canadian Oil Sands primarily represents the temporary difference between the book value of capital assets and tax pools of the Trust's subsidiaries at the substantively enacted tax rates expected to be in effect when such temporary differences reverse.

Future income tax expense in 2006 increased to $18 million from $1 million in 2005. The increase in 2006 includes a $15 million expense adjustment related to the prior year; however, the Trust has not restated prior year's financial statements as such adjustment is not considered material. Also included in 2006 is a future income tax recovery of $29 million, as a result of substantively enacted reductions to future provincial and federal corporate tax rates and elimination of the federal surtax during the second quarter of 2006. The remaining variance from the prior year relates to changes in temporary differences.

In 2006, Canadian Oil Sands completed an acquisition of Canadian Arctic, as more fully discussed later in this MD&A, which resulted in a $52 million increase to the Trust's total future tax liability on its Consolidated Balance Sheet at December 31, 2006. The additional future tax liability recorded on acquisition reflects the temporary differences between the book value of the Arctic Island assets and the related tax pools at the substantively enacted tax rates expected to be in effect when such temporary differences reverse.

The federal government's recently proposed income tax changes for income trusts are likely to have an impact on the Trust's future income tax calculations if such tax changes are enacted. The new income tax rules have not yet been legislated as of the date of this MD&A, nor have the accounting regulators finalized guidance on future income tax rules associated with the taxation of trusts. However, if the new legislation and accounting guidelines are put into effect, we estimate the Trust's future income tax liability would increase by approximately $0.6 billion, with a corresponding decrease to net income in the period when the legislation is substantively enacted. The potential increase is a result of Canadian Oil Sands Trust's temporary differences, which may be required to be tax-effected.

CAPITAL EXPENDITURES
($ millions)



Capital Expenditures

Capital spending decreased to $300 million in 2006 from $800 million in 2005, reflecting the completion of the Stage 3 and South West Quadrant Replacement ("SWQR") projects, partially offset by an approximate $30 million increase in spending on Syncrude's Emissions Reduction ("SER") project. The SER project is being undertaken to retrofit technology into the operation of Syncrude's original two cokers with the aim of significantly reducing total sulphur dioxide and other emissions. Expenditures on the SER project have started to ramp up following the completion of the Stage 3 expansion and are expected to total approximately $772 million, or $284 million net to the Trust based on its 36.74% working interest. The Trust's share of the SER project expenditures incurred to date, including amounts expensed, is approximately $49 million, with the remaining costs expected to be incurred over the next four years to coordinate with equipment turnaround schedules.

As at December 31, 2006, the Syncrude Joint Venture had spent approximately $8.5 billion to bring the Stage 3 project into operation, including $0.7 billion for the Aurora 2 Mining Train completed in late 2003. Ancillary costs for final clean up of the facilities and completion of various units remain to be incurred, which we anticipate will total approximately $90 million gross to Syncrude, or $33 million net to Canadian Oil Sands. The total cost for Stage 3 net to Canadian Oil Sands is equivalent to approximately $3.1 billion, based on our new 36.74% working interest.

Syncrude incurs both sustaining and expansion capital expenditures. Sustaining capital expenditures, which are costs required to maintain the current productive capacity of Syncrude's mines and upgraders, fluctuate considerably year-to-year due to timing of equipment replacement and other factors. Excluding major sustaining capital expenditure projects which occur from time to time, such as the SER and SWQR projects, we anticipate longer-term average sustaining capital expenditures of approximately $5 per barrel, or $240 million annually based on Stage 3 design capacity of 128 million barrels, or 47 million barrels net to the Trust. Including the SER project, sustaining capital expenditures are expected to average $6 per barrel over the next four years. The Trust's sustaining capital expenditures on a per barrel basis were approximately $5 and $9 in 2006 and 2005, respectively, and included expenditures for the SER and SWQR projects.

ACQUISITION OF CANADIAN ARCTIC

In the last half of 2006, Canadian Oil Sands acquired Canadian Arctic for approximately $223 million. Canadian Oil Sands acquired 78% of Canadian Arctic in August 2006, and the remaining 22% in October 2006. At December 31, 2006, Canadian Oil Sands had disposed of a significant portion of Canadian Arctic's conventional oil and natural gas assets for approximately $28 million, with no gain or loss realized on the sales as the carrying values of the properties were equal to the proceeds received. The sale of the remaining properties is in progress. Canadian Oil Sands will continue to hold the natural gas interests in the Arctic Islands (the "Arctic assets") as a long-term hedge for Canadian Oil Sands' natural gas requirements at Syncrude, as well as the potential opportunity to participate in the development of another long-life energy resource. The Arctic assets represent mostly carried interests and as such, there is very little requirement for Canadian Oil Sands to fund any field development costs.

As a result of acquiring Canadian Arctic and the related accounting requirements of such a business acquisition, Canadian Oil Sands' Consolidated Balance Sheet included "Goodwill" and "Assets held for sale" at December 31, 2006. Each of these is explained more fully in the following discussions. Canadian Oil Sands' interest in Canadian Arctic's net income and losses since acquisition is reflected in "Loss from discontinued operations" on the Consolidated Statement of Income and Unitholders' Equity. The Arctic assets are undeveloped and not currently producing; therefore, no net income impact is associated with those properties.

Goodwill

Goodwill on Canadian Oil Sands' Consolidated Balance Sheet is the excess amount that resulted from the total purchase price of acquiring Canadian Arctic exceeding the accounting fair value of the net identifiable assets and liabilities of that company. At December 31, 2006, the $52 million of goodwill reflects the future income tax liability on the Arctic assets. The goodwill balance will be subject to impairment assessments at least annually, or more frequently if events or changes in circumstances occur that would reasonably be expected to reduce the fair value below the carrying value. At December 31, 2006, there was no impairment of the Trust's goodwill.

Assets Held for Sale

Since the Trust's intention was to sell the conventional assets of Canadian Arctic, the fair values of the assets and related liabilities less the estimated costs to sell the assets were classified as "Assets held for sale" on the Trust's Consolidated Balance Sheet. The assets held for sale have been reduced by $28 million of proceeds received for properties sold in 2006.

ACQUISITION OF ADDITIONAL SYNCRUDE WORKING INTEREST

On November 29, 2006, the Trust agreed to purchase Talisman's 1.25% indirect working interest in Syncrude for total consideration of $475 million. The purchase was settled with a cash payment of $237.5 million and the issuance of 8.2 million Units from treasury with an approximate value of $29 per Unit at the time of entering into the acquisition agreement. The transaction closed on January 2, 2007, increasing Canadian Oil Sands' working interest to 36.74%.

CRITICAL ACCOUNTING ESTIMATES

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

a)

Canadian Oil Sands must estimate the reserves it expects to recover in the future. Our reserves are evaluated and reported on by independent petroleum reserve evaluators. They evaluate the reserves using various factors and assumptions, such as forecasts of mining and extraction recovery and upgrading yield based on geological and engineering data, projected future rates of production, projected operating costs and oil price differentials, and timing and amounts of future development costs, all of which are subjective. Although reserves and forecasts of future net revenue are estimates, we believe that the factors and assumptions used in the estimates are reasonable based on the information available at the time the estimates are prepared. The reserves data is reviewed by management, our own engineer, our Audit Committee, which acted as our reserves committee in 2006, and our Board of Directors. (Effective January 1, 2007, the reserves function was separated from the Audit Committee and a new Reserves, Marketing Operations and Environmental, Health and Safety Committee was created.)

As circumstances change and new information becomes available, the reserves data could change. Future actual results could vary greatly from our estimates, which could cause material changes in our unit-of-production D&D rates and asset impairment tests, all of which use the reserves and/or future net cash flows in the respective calculations. If proved plus probable reserves were 10% lower, DD&A expense would have been approximately $27 million higher in 2006. Our impairment test is based on proved reserves for our 35.49% working interest at December 31, 2006, and had such reserves been 10% lower, there would not have been any impairment at year-end.

b)

In 2006, Canadian Oil Sands recorded its asset retirement obligation and corresponding asset based on the estimated discounted fair value of its 35.49% share of Syncrude's future expenditures that will be required for reclamation of each of Syncrude's mine sites. In determining the fair value, Canadian Oil Sands must estimate the amount of the future cash payments, the timing of when those payments will be required, and then apply an appropriate credit-adjusted risk free rate. Given the long reserves life of Syncrude's leases, the reclamation expenditures will be made over approximately the next 60 years, and it is difficult to estimate the timing and amount of the reclamation payments that will be required as they will occur far into the future.

Any changes in the anticipated timing or the amount of the payments subsequent to the initial obligation being recorded result in a change to our asset retirement obligation and corresponding asset. Such changes will impact the accretion of the obligation and the depreciation of the asset and will correspondingly impact net income. The asset retirement obligation is more fully described in Note 9 to the audited Consolidated Financial Statements.

In addition, due to the indeterminate useful life of Syncrude's upgrader facilities and the uncertainty in estimating the timing and amount of the reclamation expenditures, if any, related to Syncrude's sulphur blocks, no amounts have been recognized in the Trust's asset

retirement obligation for those components. Actual future reclamation costs related to the upgrading facilities and the sulphur block may materially impact the Trust's cash from operating activities in the years the reclamation costs are incurred.

c)

Canadian Oil Sands accrues its obligations for Syncrude Canada's post-employment benefits utilizing actuarial and other assumptions to estimate the projected benefit obligation, the return on plan assets, and the expense accrual related to the current period. The basic assumptions utilized are outlined in Note 6(a) to the audited Consolidated Financial Statements. A 0.25% change in the discount rate related to Syncrude's defined benefit pension plan would result in an approximate increase/decrease of $25 million in our employee future benefit liability.

In addition, actuarial gains and losses are deferred and amortized into income over the expected average remaining service lives of employees, which was estimated to be 12 years. Actual costs related to Syncrude Canada's employee benefit plans could vary greatly from the amounts accrued for the pension obligation and the plan assets. If Canadian Oil Sands had recognized the actuarial losses immediately into income, pension and other post-employment expense would have increased from $32 million to approximately $40 million in 2006. In addition, the accrued benefit liability on the Consolidated Balance Sheet would have increased from $108 million to $234 million. Canadian Oil Sands does not have a pension plan for its own employees. Therefore, all of the employee future benefit liabilities and expenditures relate to its working interest share of Syncrude Canada's pension benefit plan and post-employment plan obligations.

d)

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

CHANGE IN ACCOUNTING POLICIES

There were no significant changes to the Trust's accounting policies during the 2006 calendar year.

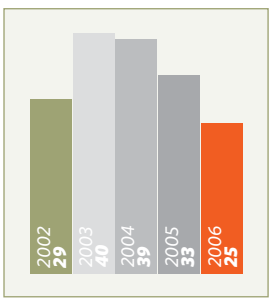
NEW ACCOUNTING PRONOUNCEMENTS

Effective January 1, 2007, the Trust will be applying the accounting rules related to the new financial instruments accounting framework, which encompasses three new Canadian Institute of Chartered Accountant ("CICA") Handbook Sections: 3855 "Financial Instruments - Recognition and Measurement", 3865 "Hedges", and 1530 "Comprehensive Income". There was an additional Handbook section released related to disclosure and presentation of financial instruments (Section 3861), but it is not effective until 2008 for the Trust. The new accounting pronouncements that are effective for 2007 determine how reporting entities recognize and measure financial assets, financial liabilities and non-financial derivatives.

As a result of these new Handbook sections, and effective January 1, 2007, the Trust's deferred currency hedging gains of $35 million on its balance sheet will be recognized immediately as an increase to accumulated other comprehensive income ("AOCI"), a new category of the Trust's Consolidated Balance Sheet included in Unitholders' Equity, in accordance with Handbook Section 1530. The amount temporarily recorded in AOCI will be reclassified to net income over the remaining term of the hedged item, which is June 30, 2016.

Effective January 1, 2007, the Trust will no longer be applying hedge accounting to its existing foreign currency hedges and the interest rate swaps on its 3.95% medium term notes (the Trust does not apply hedge accounting to the other interest rate swaps on its US$70 million Senior Notes). On January 1, 2007, the Trust will mark-to-market the existing positions and will record the fair values of approximately $5 million on the Consolidated Balance Sheet as a deferred asset, with a corresponding increase to AOCI. Subsequent changes in the fair value of the positions will be recorded in net income. The amount recorded in AOCI will be drawn down over the term of the positions.

NET DEBT TO TOTAL CAPITALIZATION AT DECEMBER 31
(%)



LIQUIDITY AND CAPITAL RESOURCES

($ millions)	*2006*	*2005*
Long-term debt	1,644	1,737
Less: Cash and cash equivalents	353	88
Net debt	1,291	1,649
Unitholders' equity	3,956	3,383
Total capitalization[1]	5,247	5,032

1 *Net debt plus Unitholders' equity. Net debt and total capitalization are non GAAP measures.*

Canadian Oil Sands' capital structure improved at December 31, 2006 compared to December 31, 2005. The $834 million of net income generated in 2006 exceeded the $263 million of distributions, net of the Premium Distribution, Distribution Reinvestment and Optional Unit Purchase Plan ("DRIP"), paid in the year, leading to an increase in Unitholders' equity. The DRIP generated $249 million in new equity in 2006 at an average price of $30.49 per Unit.

Long-term debt decreased to $1.6 billion at December 31, 2006, as a result of credit facility repayments during the year. After deducting cash and cash equivalents of $0.3 billion, net debt was $1.3 billion at December 31, 2006. Accordingly, net debt to total capitalization, which we monitor as part of our ongoing compliance under our debt and credit facilities, was 25% at December 31, 2006 compared to 33% at December 31, 2005. We also consider net debt to cash from operating activities to be a key measure of financial leverage.

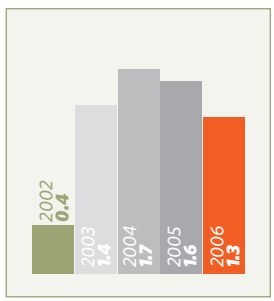
FINANCIAL LEVERAGE RATIOS

	2006	*2005*
Net debt to cash from operating activities *(times)*	1.1	1.7
Net debt to total capitalization *(%)*	25	33

Cash from operating activities, including a $22 million reduction in working capital requirements, totalled $1.1 billion, or $2.45 per Unit compared with the prior year in which changes in working capital reduced cash from operating activities to $0.9 billion, or $2.07 per Unit. Cash from operating activities was more than sufficient to fund investing activities of $523 million and Unitholder distributions of $512 million for the year. Investing activities consisted mainly of $300 million of capital expenditures and $171 million of Canadian Arctic acquisition costs, net of the $28 million of conventional asset sales proceeds. Cash balances increased year-over-year by $265 million after equity proceeds of approximately $250 million and repayment of $92 million owing on the Trust's credit facilities. Approximately $237 million of the cash balance was utilized on January 2, 2007 to satisfy the cash portion of the purchase of Talisman's 1.25% indirect working interest in Syncrude.

A Unitholder distribution schedule pertaining to the year ended December 31 is included in Note 15 to the audited Consolidated Financial Statements. The Trust historically has used debt and equity financing to the extent cash from operating activities was insufficient to fund distributions, capital expenditures, mining reclamation trust contributions, acquisitions and working capital changes from financing and investing activities.

NET DEBT AT DECEMBER 31
($ billions)



In response to the recently proposed income trust tax changes, the larger asset base resulting from the recent acquisition from Talisman, and the completion of the Stage 3 project, the Trust has adjusted its financing strategy and correspondingly increased its net debt target from $1.2 billion to $1.6 billion. The increase in the net debt level should reduce the cost of capital and position the Trust to accelerate fuller payout of free cash flow before the new tax rules take effect in 2011.

The Trust has two debt tranches maturing in 2007: $195 million of medium term notes, which matured on January 15, 2007, and US$70 million of Senior Notes maturing on May 15, 2007. The Trust intends to refinance both of these issues using its committed long-term bank credit facilities as part of its $1.6 billion target net debt level and does not intend to repay the maturities with free cash flow. As at December 31, 2006, unutilized operating credit facilities amounted to $824 million. Including the Talisman acquisition, our current net debt level approximates our target of $1.6 billion.

Debt covenants do not specifically limit the Trust's ability to pay distributions and are not expected to influence the Trust's liquidity in the foreseeable future. Aside from the typical 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, financial covenants restrict total debt-to-total book capitalization at an amount less than 0.55 to 1.0. With a current net debt-to-book capitalization of approximately 25%, a significant increase in debt or decrease in equity would be required to negatively impact the Trust's financial flexibility under these covenants.

The Trust's cash from operating activities includes funding for Canadian Oil Sands' other operating obligations, namely its share of Syncrude's pension and reclamation funding. In 2006, the actual pension funding and reclamation expenditures (including contributions to the reclamation account shown as investing activities) of $32 million compared to the related accruals of $44 million included in the income statement for pension expense and ARO. In 2007, based on preliminary information, the Trust's funding requirements related to its share of Syncrude's pension liability are expected to increase by up to $10 million over 2006 levels. Such additional funding will be confirmed when Syncrude's actuarial valuation is completed in the second quarter of 2007. We do not anticipate a significant difference in our actual reclamation funding in 2007 over amounts

paid in 2006. Actual 2007 reclamation funding requirements (including contributions to the reclamation account) are not expected to differ materially from the ARO accretion expense recorded in the income statement.

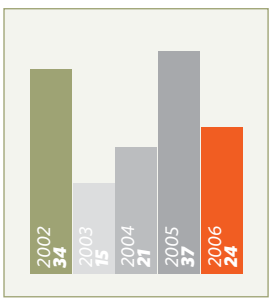
Also as part of its financing strategy, the Trust has suspended its DRIP as of January 31, 2007. The DRIP provided cost-effective equity to support our financing plan for the Stage 3 expansion. The Trust no longer requires this source of funding; however, it may reinstate the DRIP to fund future investing activities, if required.

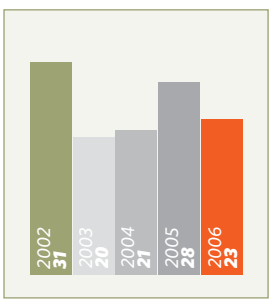
In the first quarter of 2006, Canadian Oil Sands extended its $840 million operating credit facilities. An overview of the key facilities terms can be found in Note 7 to the audited Consolidated Financial Statements.

In the fourth quarter of 2006, Standard & Poor's downgraded the Trust's credit rating to BBB with a stable outlook from BBB+ with a negative outlook. We do not expect this change to have a significant impact on the Trust's ability to finance its operations.

A key benchmark used to evaluate the Trust's performance is return on average productive capital employed ("ROCE"), which is a measure of the returns the Trust realizes on its assets in productive use. In calculating ROCE, we exclude major expansion projects not yet used in production. In 2006, the Stage 3 Upgrader Expansion capital was put into production, and therefore was considered productive capital for half a year in 2006. The Trust's ROCE declined in 2006 over 2005 reflecting the higher capital employed without a commensurate increase in net income. While production volumes and revenues increased as a result of Stage 3 coming on-stream at the end of August, the financial benefit was partially offset by higher costs, including Crown royalties. The lower return on average Unitholders' equity in 2006 compared to the prior year reflects the build in Unitholders' equity since net income exceeded distributions, net of the DRIP, paid in the year. As net income did not increase commensurately with the equity rise, return on average Unitholders' equity declined. Based on our 2007 Outlook in this report, ROCE is expected to decline to approximately 12%.

RETURN ON AVERAGE PRODUCTIVE CAPITAL EMPLOYED
(%)





RETURN ON AVERAGE UNITHOLDERS' EQUITY
(%)

PERFORMANCE MANAGEMENT RATIOS

	2006	2005
Return on average Unitholders' equity *(%)*	23	28
Return on average productive capital employed[1] *(%)*	24	37

1 *Calculated as net income before net interest expense, foreign exchange and future income taxes, divided by average productive capital employed, which excludes major expansion projects not yet in use.*

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

We have assumed various contractual obligations and commitments in the normal course of our operations. The following table indicates the significant financial obligations that are known as of December 31, 2006, and represent future cash payments we are required to make under existing contractual agreements, which we have entered into either directly, or as an owner in the Syncrude Joint Venture. On January 2, 2007, we completed the acquisition with Talisman, thereby reducing our $475 million commitment from December 31, 2006. There have been no other significant changes to the Trust's contractual obligations and commitments as of February 22, 2007.

($ millions)	Total	Payments due by period < 1 year	1 - 3 years	4 - 5 years	After 5 years
Long-term debt[1]	1,644	276	641	–	727
Stage 3 expenditure obligations[2]	33	19	14	–	–
Capital expenditure commitments[3]	261	107	154	–	–
Pension plan solvency deficiency payments[4]	103	9	26	17	51
Management Services Agreement[5]	166	13	51	34	68
Pipeline commitments[6]	603	29	63	40	471
Acquisition of additional Syncrude working interest[7]	475	475	–	–	–
Other obligations[8]	378	176	157	9	36
	3,663	1,104	1,106	100	1,353

1 *While there is approximately $276 million of debt maturing in 2007, it is Canadian Oil Sands' intention and ability to refinance such debt.*

2 *The total estimated cost of the Stage 3 expansion is approximately $3.1 billion, net to the Trust, of which approximately $33 million remains to be incurred.*

3 *Capital expenditures commitments are comprised of our 36.74% share of Syncrude's Emissions Reduction project as well as other miscellaneous items.*

4 *We are responsible for funding our 36.74% share of Syncrude Canada's registered pension plan solvency deficiency, which was confirmed in the December 31, 2003 actuarial valuation completed in 2004. A new actuarial valuation for December 31, 2006 will be completed in the second quarter of 2007, at which time the Trust's pension funding commitments will be updated.*

5 *These include commitments for our 36.74% share of Syncrude's annual fixed service fees.*

6 *These include commitments for our 36.74% share of the AOSPL pipeline commitment as a Syncrude Joint Venture owner, and various other Canadian Oil Sands' pipeline commitments for transportation access beyond Edmonton.*

7 *The acquisition of Talisman's 1.25% indirect Syncrude working interest closed on January 2, 2007.*

8 *These obligations primarily include our 36.74% share of the minimum payments required under Syncrude's commitments for natural gas purchases and employee retention program. Other items include annual disposal fees for the flue gas desulphurization unit and capital and operating lease obligations. Asset retirement obligations are not included in these amounts.*

UNITHOLDERS' CAPITAL AND UNIT TRADING ACTIVITY

Canadian Oil Sands issues Unit options ("options") as part of its long-term incentive plan for employees. There were 203,310 options granted in 2006 with an average exercise price of $29.70 per option and a fair value of approximately $1 million, which will be amortized into income over a three-year vesting period. On January 29, 2007, another 163,652 options were granted with a fair value of approximately $1 million. There were 2.9 million options outstanding at February 22, 2007, representing less than 1% of Units outstanding. Each option represents the right of the optionholder to purchase a Unit at the exercise price determined at the date of grant. For options granted after June 1, 2005, the exercise price is reduced by distributions over a threshold amount. The options vest by one-third following the date of grant for the first three years and expire seven years from the date of grant.

In addition, 34,345 performance unit rights ("PUPs") were issued in 2006 and had an accrued value of approximately $1 million at December 31, 2006. On January 29, 2007, an additional 33,275 PUPs were granted with a fair value of approximately $1 million. The PUPs are earned based on total unitholder return at the end of three years compared to a peer group, with the actual unit equivalents earned ranging from zero to double the target award. More detail on the Trust's stock-based compensation plans can be found in Note 13 to the audited Consolidated Financial Statements, as well as the Trust's Management Proxy Circulars dated March 10, 2006 and March 11, 2005.

Canadian Oil Sands Units trade on the Toronto Stock Exchange under the symbol COS.UN. In May 2006, Canadian Oil Sands' Trust Units were split on a five-for-one basis. At December 31, 2006, based on the closing market price of $32.61 per Unit, our market capitalization and enterprise value were approximately $15 billion and $17 billion, respectively, up from $12 billion and $13 billion, respectively, at December 31, 2005 based on a closing Unit price of $25.20 (post-split basis) at that date. A table summarizing the Units issued in 2006 is included in Note 12(a) of the audited Consolidated Financial Statements. On January 2, 2007, the Trust issued another 8.2 million Units to Talisman, valued at approximately $237.5 million, as part of the consideration paid by the Trust to acquire the 1.25% indirect Syncrude working interest.

Unitholder distributions paid in 2006 totalled $512 million, or $1.10 per Unit, compared with $184 million, or $0.40 per Unit (adjusted for the 5:1 Unit split) recorded in the prior year. In 2005, distributions were paid to Unitholders on the last business day of the second month following the quarter end and were recorded as payable at each quarter end even though they were not declared. In the last quarter of 2005, the Trust changed how its Unitholder distributions were recorded in the Consolidated Financial Statements to reflect distributions paid in the quarter, rather than accrued; therefore, the prior year financial statements reflect only three quarters of distributions paid as there was no accrual at December 31, 2005, for the distribution of $0.20 per Unit paid on February 28, 2006. The change did not impact the distributions declared and paid to our Unitholders or the timing of such payments.

On January 29, 2007, the Trust declared a distribution of $0.30 per Unit for total distributions of approximately $144 million. The distribution will be paid on February 28, 2007 to Unitholders of record on February 8, 2007.

PROPOSED CHANGES IN TRUST TAX LEGISLATION

On October 31, 2006, the Minister of Finance announced the federal government's intention to impose a new tax on certain distributions from existing income and royalty trusts effective in 2011. A stated goal was to equalize the tax burden between income trusts and corporations after a transition period. On December 21, 2006, draft legislation was released for comment. Assuming the proposed changes are enacted, it is expected that the new tax will apply to Canadian Oil Sands' distributions and will ultimately have a material adverse impact on the cash available for distributions to Unitholders after the transition period in 2011. Under the proposed rules, distributions of non-portfolio earnings (as defined in the draft legislation) of the Trust would not be deductible to the Trust and would be taxable at the rate of 31.5%, thus reducing the distributions paid. Currently almost all of Canadian Oil Sands' Unitholder distributions are comprised of non-portfolio earnings. Distributions of non-portfolio earnings would be considered dividends under the new rules and eligible for the dividend tax credit, similar to the tax treatment on corporate dividends. As such, the after-tax impact would be relatively neutral to Canadian investors who hold

our Units in taxable accounts. Investors who hold our Units in tax deferred accounts and non-resident Unitholders would see their after-tax realizations decline significantly. The impact of the announcement resulted in a substantial decline in the market value of trust units generally.

While the proposed changes, if enacted, will negatively impact the after-tax realizations of some Unitholders, the fundamental business of Canadian Oil Sands remains unchanged. The Trust does not rely on the trust structure and issuance of equity to sustain its business. We have long-life reserves of approximately 40 years, based on Stage 3 productive capacity rates, with virtually no decline in our production profile. As well, we have approximately $2 billion of tax pools available to defer taxable income in future years. We have revised our net debt target to $1.6 billion, up from $1.2 billion, to accelerate fuller payout of free cash flow and allow the Trust to maximize distributions and conserve tax deductions until the proposed tax changes take effect in 2011.

The new rules are not expected to significantly limit our near-term Syncrude growth opportunities. The proposed changes permit "normal growth" throughout the transition period by allowing cumulative increases of equity capital of 40% in 2007 and 20% in each of the subsequent three years for a doubling of equity capital between now and 2010. Equity capital growth in excess of these limits may be deemed "undue expansion" and may subject the Trust's distributions to the proposed tax changes prior to the end of the transition period.

In the absence of final legislation implementing the 2006 proposed changes, the implications are difficult to fully evaluate and no assurance can be provided as to the extent and timing of their application to Canadian Oil Sands and our Unitholders. Management will evaluate Canadian Oil Sands' alternatives to most effectively optimize value for our Unitholders.

RISK MANAGEMENT

Canadian Oil Sands systematically approaches the management of risk through a process designed to identify, categorize and assess principle risks. Syncrude Canada, as operator of the joint venture, identifies and assesses the operational and environmental, health and safety ("EH&S") risks which may impact their operations. Canadian Oil Sands augments Syncrude's analysis with further consideration of risks specific to Canadian Oil Sands and by having representation on Syncrude Canada's EH&S committee, which stewards Syncrude's operations in that regard. We categorize risks based on their probability of occurrence and their potential impact on free cash flow, corporate reputation and EH&S. Syncrude and Canadian Oil Sands take a number of actions once the risks have been identified and categorized, including avoidance, mitigation, risk transfer and acceptance. The Board of Directors is presented annually with a summary of management's assessment of the risks and strategies aimed at reasonably managing such risks. The Board reviews such assessment and recommendations regarding management of the risks and provides oversight of this risk management process.

There are a number of risks impacting Canadian Oil Sands that affect free cash flow and therefore the distributions ultimately paid to Unitholders. Free cash flow is highly sensitive to a number of factors affecting cash from operating activities, including: Syncrude production, sales volumes, oil and natural gas prices, price differentials, foreign currency exchange rates, operating, administrative, and financing expenses, non-production costs, Crown royalties, and regulatory and environmental risks. Distributions are further impacted by sustaining and growth capital expenditures and Canadian Oil

Sands' financing requirements thereof. Sensitivities to the most significant items affecting cash from operating activities are outlined in the sensitivity section of this MD&A.

The following discusses the significant risks that impact Canadian Oil Sands' production of SSB. Similar risks will apply to Syncrude's SSP product when it is produced, which is anticipated to commence in the fourth quarter of 2007. More information regarding Canadian Oil Sands' risks is available in our AIF, which is available at www.sedar.com or on our website at www.cos-trust.com.

Commodity Price Risk

Crude Oil Price Risk

Our cash flows are impacted by changes in both the U.S. dollar denominated crude oil prices and U.S./Canadian foreign exchange rates. Over the last two years, WTI prices have experienced significant volatility, ranging from a low of US$42 per barrel in January 2005 to a high of US$77 a barrel in July 2006. In the past, management has hedged both elements to reduce revenue and cash flow volatility to the Trust during periods of significant financing requirements.

As Canadian Oil Sands' management believed financing risks were not significant in 2006 and 2005, no crude oil price hedges were executed and revenues were fully exposed to WTI price fluctuations. As at February 22, 2007, and based on current expectations, the Trust remains unhedged on its crude oil price exposure; however, it may hedge its crude oil production in the future depending on the business environment and our growth opportunities.

In the past few years there have been increases to the supply of synthetic crude oil from various oil sands projects, and several additional projects are under development or being contemplated. If and when these other projects are completed, there will be a significant increase in the supply of synthetic crude oil in the market. There is no guarantee there will be sufficient demand to absorb the increased supply without eroding the selling price, which could result in a deterioration of the price differential that Canadian Oil Sands may realize compared to benchmark prices such as WTI. Based on the expected supply of light, sweet synthetic crude oil and the expected delivery locations for our product in 2007, we are forecasting a further weakening of our price differential to a discount of $4.00 per barrel relative to Canadian dollar WTI prices. In 2006, our average realized selling price reflected a discount of $2.57 per barrel, and in 2005 a premium of $1.05 per barrel.

In response to growing volumes of synthetic crude oil and Syncrude's own expanding volumes following the Stage 3 completion, we likely will have to continue expanding our markets to achieve the price we expect for our quality product. Following modifications to the hydrogen plant scheduled for the third quarter of 2007, we expect to further upgrade our entire production into SSP. This higher quality blend is anticipated to be more attractive to refineries, which should enhance our price per barrel relative to SSB.

The demand for light sweet synthetics, including SSB, as a diluent is growing as a result of more volumes of bitumen and heavy crude oil being produced in Western Canada. However, this growth is expected to be limited due to condensate import pipelines being planned for Western Canada.

Natural Gas Price Risk

Purchased natural gas is a significant component of the bitumen production and upgrading processes. Increases in natural gas prices and/or shortages in the supply of natural gas therefore introduce the risk of significantly higher operating costs. Similar to crude oil prices, natural gas prices have also experienced significant movements, decreasing from a high of approximately $12 per GJ during 2005 to a low of $4 per GJ during 2006. To the extent crude oil prices and natural gas prices move together on a stable energy equivalent basis, natural gas price risk is mitigated as the Trust is significantly more levered to oil price increases. The main risk involves a de-linking of crude oil and natural gas price movements, such that gas prices are significantly higher than oil prices on an energy equivalent basis. De-linking of crude oil and natural gas prices does occur, but historically these situations tend to be relatively short-term. The Trust has previously used natural gas hedge positions to mitigate this risk and will continue to assess the strategy as a means to manage short-term operating costs. No natural gas hedges were utilized in 2006 or 2005 and as at February 22, 2007, we have no natural gas hedges in place.

The acquisition of Canadian Arctic's natural gas interests, which are estimated to have approximately 927 billion cubic feet equivalent of natural gas resource, provides Canadian Oil Sands with a long-term hedge against significant future natural gas price increases; however, this resource is not currently in production and there are no development plans at this time.

Operational Risk

Currently, our investment in Syncrude represents our only producing asset. Therefore, the results of the Trust depend exclusively on the Syncrude operations. The Syncrude project is a complex, inter-dependent facility and the shutdown of one part of the facility could significantly impact the production of SSB crude oil. Causes of production shortfalls and/or interruptions may include, but are not limited to: design errors, equipment failures, operator errors, or catastrophic events such as fire, earthquake, storms, explosions or dam failures. There is also the risk that the Syncrude plant will not achieve its design capacity on a sustained basis and/or will not be able to produce the higher quality SSP product as currently anticipated, which would impact the Trust's financial returns.

As a participant in Syncrude, we benefit from operational risk management programs implemented by the Syncrude Joint Venture. Syncrude applies robust engineering and design standards and utilizes maintenance and inspection procedures to mitigate operational risk. From an operations perspective, sustained, safe and reliable operations are the key to achieving targets for production and operating costs. The new Management Services Agreement between Syncrude Canada and Imperial should further enhance these processes and procedures.

Extreme cold weather can affect both ongoing operations and capital projects by reducing worker productivity and potentially increasing natural gas consumption. Major incidents or unscheduled maintenance outages curtail production and result in significant increases to operating costs, as was evident in 2006 with the extended Coker 8-1 turnaround and unplanned maintenance of Coker 8-2. With over 28 years of continuous production, Syncrude has an excellent industrial safety record.

In addition, we are exposed to the risks associated with major construction projects. These risks include the possibility that projects will not be completed on time and/or will not reach design capacity. Also, complications could arise when new systems are

integrated with existing systems and facilities. The risk of such complications is somewhat mitigated by Syncrude's procedures of performing a sequenced start-up of new units. With the start-up of Stage 3 in the second half of 2006, most of these risks have been reduced, but there is still a period of lining out the new units and integrating them into the existing operations in an effective and efficient manner.

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

We also face risks associated with other oil sands producers such as competition for skilled labour, limited resources in the Fort McMurray area where Syncrude and the other producers operate, and higher costs for products and services to operate Syncrude's facilities as a result of increased demand. In addition to paying its employees and contract staff competitive industry compensation, Syncrude Canada has a reputation as an innovative and socially responsible company committed to the environment and dedicated to its employees, the Aboriginal Peoples, and the communities of northern Alberta. We believe these qualities assist in retaining skilled labour. Additionally, Syncrude implemented an employee retention program in 2006, which will result in cash payments, but may provide savings associated with an experienced workforce. To deal with the increased demands on the infrastructure, such as housing, Syncrude cooperates, where they are able to, with other industry participants to share resources, such as camps.

Worldwide demand for commodities has increased activity in the mining sector, introducing a risk of constrained supplies for key operating components. The strong mining sector is currently resulting in a shortage of off-road tires. While the tire shortage has been identified as a production and cost risk for 2007, Syncrude has implemented various measures aimed at reducing tire damage and increasing tire life in order to more efficiently manage their supply. While we do not currently expect the shortage to impact our existing 2007 production outlook, the ability to achieve higher levels of production may be limited by tire supply constraints.

Foreign Currency Risk

Our results are affected by fluctuations in the U.S./Canadian currency exchange rates as we generate revenue from oil sales based on a U.S. dollar WTI benchmark price. There have been considerable changes in the value of the Canadian dollar relative to the U.S. dollar, ranging from a high of $0.91 US/Cdn in June 2006 to a low of $0.79 US/Cdn in May 2005. Our revenue exposure is partially offset by U.S. dollar obligations, such as interest costs on the U.S.-denominated debt and our share of Syncrude's U.S. dollar vendor payments. When our U.S. Senior Notes mature, we will have exposure to U.S. exchange rates on the repayment of the notes. This repayment of U.S. dollar debt acts as a partial hedge against our U.S. denominated revenue payments we receive from our customers. We have reduced our currency exchange risk by denominating most of our debt in U.S. dollars and in the past, have entered into contracts that fix exchange rates on future U.S. dollar revenue receipts. At the present time, we do not intend to increase our currency hedge positions. However, the Trust may hedge foreign exchange rates in the future, depending on the business environment and growth opportunities. At February 22, 2007, we had US$20 million hedged at an average U.S. dollar exchange rate of $0.69 US/Cdn.

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. At December 31, 2006, we had $195 million of floating rate debt with maturities of less than one year, comprised of $20 million of floating rate and $175 million of fixed rate medium term notes outstanding. The fixed rate notes were swapped into floating rate debt in January 2004. In 2006 and 2005, any gains or losses related to the swaps were recognized in the period the swaps were settled, as they were considered hedges for accounting purposes. As discussed earlier in this MD&A, the Trust will no longer be applying hedge accounting, effective January 1, 2007. The January 2007 maturing debt instruments were refinanced with the Trust's credit facilities that bear interest at a floating rate based on bankers' acceptances plus a credit spread. Canadian Oil Sands is also exposed to interest rate risk in May 2007 when its US$70 million Senior Notes are refinanced with floating rate credit facilities or fixed market rates at the time of refinancing such debt.

Capital Expenditure Risk

Inherent in the mining of oil sands and production of synthetic crude oil is a need to make substantial capital expenditures. In addition to the potential of capital cost increases, we are exposed to financing risks associated with the funding requirements for our 36.74% interest in Syncrude's capital program. We have historically minimized this risk by accessing diverse funding sources. Credit facilities and cash from operating activities are significant sources of funding available to us. In addition, we believe that the Trust has the ability to access public debt and equity markets given our asset base and current credit ratings.

Credit Risk

Crude oil sales revenue credit risk is managed by limiting the exposure to customers based on assigned credit ratings as well as limiting the maximum exposure to any single customer. Risk is further mitigated as sales revenue receivables typically are due and settled in the month following the sale. We mitigate our exposure to credit risk by selecting counterparties of high credit quality, monitoring exposure levels, and limiting credit exposures to approved levels, as set in our corporate credit policy. To date, we have not experienced a significant loss on uncollected receivables from any customers or counterparties.

Syncrude Joint Venture Ownership

The Syncrude project is a joint venture that is currently owned by seven participants with varying interests. Major capital decisions for new projects require unanimity of the Syncrude owners, while other matters require only the approval of a majority of the working interests and three Syncrude owners. Historically, Canadian Oil Sands and the Syncrude owners have sought consensus on all significant matters. There can be no assurance, however, that unanimous agreement will be reached on major capital programs and that future expansions will be executed as currently planned.

Pipeline Transportation and Delivery Infrastructure

All of our Syncrude production is currently transported to Edmonton, Alberta through the Alberta Oil Sands Pipeline Limited ("AOSPL") system. Disruptions in service on this system could adversely affect our crude oil sales and cash flows. The AOSPL system feeds into various other crude oil pipelines that are used to deliver our SSB product to refinery customers throughout Canada and the U.S. Interruptions in the availability of these pipeline systems may limit the ability to deliver production volumes and could adversely impact sales volumes or the prices received for our product. These interruptions may be caused by the inability of the pipeline to operate, or by capacity constraints if the supply of feedstock into the system exceeds the infrastructure capacity. While we believe long-term take-away capacity will exceed production growth for synthetic supply out of the Athabasca region, there can be no certainty that investments will be made to provide this capacity. There is also no certainty that short-term operational constraints on the pipeline system, arising from pipeline interruptions and/or increased supply of crude oil, will not occur as capacity is believed to be adequate, but tight. In addition, planned or unplanned shutdowns of our refinery customers may limit our ability to deliver our SSB crude oil with a negative implication on revenues and cash from operating activities.

We manage exposure to these risks by allocating deliveries to multiple customers via multiple pipelines, but pipeline choices are limited. We also maintain knowledge of the infrastructure operational issues and expansion proposals through industry organizations in order to assess and respond to delivery risks. In addition, Canadian Oil Sands is investigating the possibility of storage tankage at various locations as a means of dealing with short-term restrictions on pipeline capacity.

Environmental Risk

We are exposed to the risk of the potential impact of Syncrude's operations on the environment. Syncrude's commitment to its objectives of operational, environmental and social excellence is aligned with the mitigation of environmental impacts. Stage 3 incorporates technologies to reduce emissions, improve energy efficiency and upgrade the entire production stream to meet higher specifications for environmental and product quality. We anticipate that, in time, downstream refineries will find our SSP product more valuable than the existing SSB as they will likely use less energy in processing our high quality SSP crude into products, such as gasoline and diesel, that meet new higher environmental standards.

While total CO_2 emissions will increase as production rises and when the higher quality SSP is produced, Syncrude's investments in energy consumption and environmental mitigation are intended to continue to reduce CO_2 emissions per barrel. However, the risk exists that these mitigation efforts will not meet societal expectations or environmental regulations.

The third fluid coker constructed as part of Stage 3 includes a flue gas desulphurizer ("FGD") that captures SO_2 emissions. Syncrude has an agreement in place to provide the sulphur from the desulphurization unit to a third party for use in the manufacture of ammonium sulphate fertilizer.

Syncrude also has initiated the SER project, which is expected to significantly reduce total SO_2 emissions as well as other emissions, such as particulate matter and metals. It will involve retrofitting sulphur reduction technology into the operation of Syncrude's original two Base Plant cokers. Procurement and construction expenditures are scheduled for the next four years. The SER project, together with the flue gas desulphurizer technology incorporated into the Stage 3 expansion, are expected to reduce SO_2 emissions by up to

60% from today's approved Alberta Environmental regulatory levels of 245 tonnes per day. The resulting SO_2 emissions are also expected to be below new maximum emission levels that will take effect following the completion of the SER project.

Syncrude produces and stores significant amounts of sulphur in inventory blocks at its plant site as there is presently a limited market for the sulphur. There can be no assurance that future environmental regulations pertaining to the use, storage, handling and/or sale of sulphur will not adversely impact the unit costs of production of synthetic oil. Syncrude is exploring the ability to store sulphur blocks underground. Initial information indicates that this may be a viable and environmentally-friendly solution for dealing with the excess sulphur. Syncrude continues to research alternatives for addressing this issue, which also affects other sulphur producers in the petroleum industry. In addition, in 2005 the Trust entered an agreement with a major sulphur marketer to sell our share of Syncrude's sulphur production at a plant gate market price. The agreement covers an initial five-year term, is renewable at the Trust's option, and provides that volumes will not be sold unless the price exceeds an established plant gate minimum. Sales under this contract are expected to begin in 2008, following the buyer's construction of infrastructure to handle the Trust's sulphur volumes.

Syncrude owners are liable for their share of ongoing environmental obligations for the ultimate reclamation of the Syncrude project. Our share of Syncrude's ongoing environmental obligations has been and is expected to continue to be funded by our cash from operating activities. The owners also have each directly posted letters of credit with the Province of Alberta to secure the ultimate mining reclamation obligations, of which Canadian Oil Sand's share was approximately $49 million at December 31, 2006. In addition to the letters of credit posted with the Alberta government, Canadian Oil Sands maintains a reclamation trust fund to help meet this future reclamation liability.

In 2006, we contributed approximately $5 million, including earned interest, versus approximately $4 million in 2005 to our reclamation trust account, resulting in a December 31, 2006 ending balance of approximately $30 million. The funding requirement of the reclamation trust is more fully described in Note 9 to the audited Consolidated Financial Statements.

A number of environmental regulations focus on limiting the emissions of gases and other substances from the Syncrude operations. The Canadian federal government ratified the Kyoto Protocol in 2002 and has indicated that total annual emissions for greenhouse gases for large industrial emitters have been capped at 55 megatonnes with emissions to be reduced by 15% from current business-as-usual levels. The prior federal government had limited the cost of future carbon credit purchases to a maximum of $15 per tonne.

With Russia's adoption of the Kyoto Protocol in 2004, the Protocol came into effect in Canada on February 16, 2005. The federal government also has recently indicated that it will be considering various limitations and sanctions with regard to the emission of greenhouse gases, either as part of its legislative efforts regarding the Kyoto Accord, or otherwise. Additionally, public announcements regarding the plan to reduce greenhouse gas emissions have raised the question as to what limitations and restrictions may be imposed by the federal government either under the proposed *Clean Air Act* or other legislation. Sanctions relating to emissions and water quality have not been specified. The federal government has not published specific guidelines or further guidance on these limitations and sanctions. As such, we cannot assess the impact of potential new greenhouse gas emission reduction targets on our operations. We believe that production will continue to be profitable under the current known factors.

There are also various consultation processes underway by the Province of Alberta with regard to water usage in the oil and gas industry and the oil sands sector, in particular. Again, as no conclusions or recommendations have been issued by such regulatory review body, we cannot assess the impact of any such proposals on our operations. Syncrude currently operates within its water license limits and recycles approximately 80% of its total water usage.

Syncrude has historically worked with the federal and provincial governments to monitor its emissions of greenhouse gases and is constantly working toward reducing the per barrel emissions through greater energy efficiency. Syncrude has also operated below the license limits with respect to its water usage from the Athabasca River. However, as the Syncrude operations involve use of water and the emission of greenhouse gases, legislation which significantly restricts or penalizes current production levels would have a material impact in our operations. The costs of meeting such environmental thresholds would increase operating costs and/or capital costs, and as such, may impact the profitability of the operations.

Regulations

The Syncrude project's operations are subject to extensive Canadian federal, provincial and local laws and regulations governing exploration, development, transportation, production, exports, occupational health, protection and reclamation of the environment, safety and other matters. Currently, we believe that Syncrude is in substantial compliance with all applicable laws and regulations. During the Stage 3 construction, Syncrude achieved very high safety results in both the construction and operational aspects at the plant. Additionally, Syncrude has historically obtained renewals of its licenses and permits. While there can be no assurance that government approvals required for certain licenses and permits will be provided, we do not believe that there are any significant issues pending with the governmental authorities which would cause Syncrude to lose its rights. In particular, the approval granted by the Alberta Energy and Utilities Board for the Syncrude project facility does not expire until December 31, 2035 and is expected to be further extended upon application to the relevant regulatory authorities at that time.

Foreign Ownership

Under current legislation, mutual fund trusts must be established "primarily for the benefit of Canadians". Historically, the federal government has taken this to mean that not more than 50% of Unitholders can be non-Canadian residents. While some royalty trusts rely upon specific tax language which provides a "technical exception" to this provision, the basis upon which Canadian Oil Sands Trust was established in 1995 does not fit within such technical language. Accordingly, and in keeping with the current language of Canadian Oil Sands' Trust indenture, we restrict the ownership of Units to 49% for non-Canadian residents.

Until further notice, Canadian Oil Sands' Trust Indenture continues to provide that not more than 49% of its Units can be held by non-Canadian residents. The Trust Indenture requires all Unitholders to provide such statutory declarations when requested to do so by the trustee and transfer agent. The Trust posts the results of the declarations on its website at www.cos-trust.com under investor information, frequently asked questions. This section of the website also describes the Trust's steps for managing its non-Canadian resident ownership levels. Canadian Oil Sands will be examining this provision in light of the various alternatives available to the Trust in reaction to the proposed tax on distributions of certain trusts post 2011.

Based on information from the statutory declarations by Unitholders, we estimate that, as of November 3, 2006, approximately 36% of our Unitholders are non-Canadian residents with the remaining 64% being Canadian residents. The statutory declarations are only as of a specific record date, and therefore may still not reflect the current ownership level of the Trust's Units; however, given the limitations in the securities registration system and the lack of any process for real-time residency information to flow to the trustee and transfer agent, the Trust is of the view that statutory declarations are currently the most appropriate method of determining the residency status of its Unitholders.

Change to the Crown Royalty Regime

Changes to the Crown royalty regime by the Alberta government can have a material and adverse impact on the Trust's net income and cash from operating activities, and ultimately its Unitholder distributions. While the Alberta government recently announced its plans to review Alberta's Oil Sands Royalty regime, the potential impact on Canadian Oil Sands can not be determined until the government provides information on its review findings. More detail on this issue is contained in this MD&A under the heading "Review of Alberta Oil Sands Royalty".

Changes to Tax Legislation

Tax changes enacted by the federal or provincial government can have a material impact on Unitholder distributions. Of specific note is the Minister of Finance's announcement on October 31, 2006 of the federal government's intention to impose a new tax on certain distributions from existing income and royalty trusts effective in 2011. If the proposed legislation is passed, the Trust's net income, cash from operating activities and distributions will be materially negatively impacted. However, in the absence of final legislation implementing the 2006 proposed changes, the implications are difficult to fully evaluate and quantify. Canadian Oil Sands will evaluate alternatives for the Trust once further clarity on the legislation is available. A detailed discussion of this issue is contained in this MD&A under the heading "Proposed Changes in Trust Tax Legislation".

2007 Outlook

In 2007, we are anticipating Syncrude production to range between 105 to 120 million barrels, or 39 to 44 million barrels net to the Trust based on its 36.74% working interest with a single point estimate of 110 million barrels, or 40.4 million barrels net to the Trust. The single point estimate includes a full coker turnaround currently scheduled for the third quarter of 2007. The low end of the range reflects the possibility of an additional unscheduled coker turnaround, while the upper end reflects higher than budgeted operational reliability and stability.

During the first quarter of 2007, it is likely that Syncrude will need to resolve some operational issues on Coker 8-3, which has not been producing at full capacity since November 2006. We had anticipated a period of lining-out and optimizing the different units related to the new Stage 3 facilities before ramp up to full capacity could be reached. We are maintaining our annual production forecast despite Coker 8-3's constrained production rates as we had anticipated the coker might not operate at full capacity during the lining-out period.

Syncrude's current focus is on getting the operation up to full annual capacity of 128 million barrels, or 47 million barrels net to the Trust, on a sustained and reliable basis. An additional area of focus will be to improve the product quality from SSB to SSP, which is to be accomplished by addressing the hydrogen limitation issues identified in 2006. In order to do so, modifications to the steam generation unit of the new hydrogen plant are required, which Syncrude intends to make during the planned third quarter coker turnaround. Accordingly, the transition to the higher quality SSP product is expected to occur in the fourth quarter of 2007. We anticipate that SSP's higher quality should enable some of our existing customers to increase the amount of Syncrude production they process and potentially attract new customers. In addition, we expect the higher quality SSP product to provide a higher market price relative to SSB.

Revenues in 2007 are expected to total $2.4 billion, based on an average WTI price of US$55 per barrel, an average foreign exchange rate of $0.88 US/Cdn, and an average discount to Canadian dollar WTI of $4.00 per barrel, which reflects increased supply of light synthetic crude oil in the market. Operating costs are budgeted to be $25.83 per barrel, which includes $7.08 per barrel for purchased energy based on an average AECO natural gas price of $7.50 per GJ for 2007. We anticipate Crown royalties expense to total $248 million, or $6.14 per barrel, in 2007.

Cash from operating activities is anticipated to total $857 million, or $1.79 per Unit, and includes an anticipated increase in operating working capital requirements of $25 million, reflecting higher 2007 sales levels. Capital expenditures are estimated at $255 million with approximately 57% directed to maintenance of operations, 33% directed to the SER project and 10% to Stage 3 completion and modification costs. Resulting free cash flow, defined as cash from operating activities less capital expenditures and reclamation trust contributions, is estimated to be $1.25 per Unit.

Sensitivities

Changes in certain factors and market conditions could potentially impact Canadian Oil Sands' outlook. The following table provides a sensitivity analysis of the key factors affecting the Trust's performance. In addition to the factors described in the table, the supply/demand equation for synthetic crude oil in the North American markets could impact the price differential for SSB relative to crude benchmarks; however, this factor is difficult to predict and quantify.

2007 Outlook Sensitivity Analysis

Variable[1]	*Annual Sensitivity*	*Cash from Operating Activities Increase*	
		$ millions	*$/Unit*
Syncrude operating costs decrease	Cdn$1.00/bbl	31	0.07
Syncrude operating costs decrease	Cdn$50 million	14	0.03
WTI crude oil price increase	US$1.00/bbl	31	0.07
Syncrude production increase	2 million bbls	30	0.06
Canadian dollar weakening	US$0.01/Cdn$	20	0.04
AECO natural gas price decrease	Cdn$0.50/GJ	15	0.03

1 *An opposite change in each of these variables will result in the opposite cash from operating activities impacts.*

REVIEW OF ALBERTA OIL SANDS ROYALTY

The Alberta government has announced that it plans to review Alberta's Oil Sands Royalty regime to determine if the current regime applies the most appropriate royalty rate to oil sands production. Canadian Oil Sands cannot determine or speculate as to the potential impact of any changes to the royalty rate on its operations until the government provides information on its review findings. The Syncrude operation shifted to the higher royalty rate of 25% of net revenues from the minimum 1% of gross revenues in the second quarter of 2006.

Alberta's current Oil Sands Royalty regime was instituted in 1997 and calculates royalties as 1% of gross revenues until a project reaches payout, after which point the rate rises to 25% of revenues less Syncrude operating, non-production and capital costs. The rates are tied to crude oil prices, such that higher prices accelerate recovery of costs and payout, after which, the higher rate is a cash sharing formula impacted by the project's profitability.

The Trust believes the current regime strikes the right balance between the owners of the resource – the people of Alberta – and those risking capital to develop it. We hope that any review of oil sands royalty rates would seek to maintain a fair and stable fiscal regime that also recognizes the value of processing oil sands in the province. The success of Alberta's oil sands is largely due to the historically stable and predictable fiscal regime that has been in place since 1997, which has encouraged investment by recognizing the unique challenges of the oil sands business. Oil sands projects are capital intensive and risky, requiring billions of dollars of upfront investment and very long lead times before they are capable of generating revenue and eventually a profit. Once these projects have recovered their costs, however, the regime provides Albertans with the opportunity to participate with a 25% share in the industry's profits.

The Syncrude project is already providing this higher return to Albertans. Robust crude oil prices have increased revenues from the base plant and accelerated the payout period of the new Stage 3 expansion; as a result the Syncrude project began paying the higher royalty rate at roughly the same time as the expansion was completed. Based on Canadian Oil Sands' assumptions in its January 29, 2007 Guidance Document, Syncrude is expected to pay Crown royalties of $675 million in 2007.

Controls Environment

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

We periodically review and update our internal control systems to reflect changes in our business environment. In the last quarter of 2006, the following significant changes were made to our internal control systems:

- Designed, implemented and tested controls related to crude oil marketing, which transitioned from an external service provider to an internal marketing department at Canadian Oil Sands;
- Designed, implemented and tested controls related to information systems management and support, which transitioned to an external service provider from being managed by Canadian Oil Sands during the year; and
- Established an Internal Audit department and commenced reviews in accordance with the Internal Audit plan.

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

Canadian Oil Sands, under the supervision and participation of management, including the Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of our disclosure controls and procedures and the design of our internal control over financial reporting pursuant to Multilateral Instrument 52-109 "Certification of Disclosure in Issuers' Annual and Interim Filings" as of December 31, 2006. In addition, management has evaluated the effectiveness of internal control over financial reporting as of December 31, 2006 using criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on these evaluations, Canadian Oil Sands' management concluded that:

- Our disclosure controls and procedures were effective as of December 31, 2006 to provide reasonable assurance that material information is recorded, processed, summarized and reported within the time periods specified by the applicable Canadian securities regulators. Furthermore, our disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed under applicable Canadian securities regulation is communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure; and
- Our internal control over financial reporting as of December 31, 2006 was designed and operating effectively to provide reasonable assurance regarding the reliability of financial reporting.

PricewaterhouseCoopers LLP, our independent auditors, have expressed an unqualified opinion on management's assessment and on the effectiveness of Canadian Oil Sands' internal control over financial reporting as of December 31, 2006, as stated in their report which appears herein.

Financial Information

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

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

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

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

Internal Control Over Financial Reporting

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

Management has assessed the effectiveness of Canadian Oil Sands' internal control over financial reporting as of December 31, 2006 using criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that Canadian Oil Sands' internal control over financial reporting was effective as of December 31, 2006.

PricewaterhouseCoopers LLP, our independent auditors, have audited management's assessment of the effectiveness of Canadian Oil Sands' internal control over financial reporting as of December 31, 2006 as stated in their report which appears herein.

Marcel R. Coutu
President & Chief Executive Officer
February 22, 2007

Allen R. Hagerman, FCA
Chief Financial Officer
February 22, 2007

To the Unitholders of Canadian Oil Sands Trust

We have completed an integrated audit of the consolidated financial statements and internal control over financial reporting of Canadian Oil Sands Trust (the "Trust") as of December 31, 2006 and an audit of its December 31, 2005 consolidated financial statements. Our opinions, based on our audits, are presented below.

Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of the Trust as of December 31, 2006 and December 31, 2005, and the related consolidated statements of income and Unitholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit of the Trust's financial statements as of December 31, 2006 and for the year then ended in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). We conducted our audit of the Trust's financial statements as of December 31, 2005 and for the year then ended in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. A financial statement audit also includes assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Trust as of December 31, 2006 and December 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Internal Control Over Financial Reporting

We have also audited management's assessment, included in the accompanying Management's Report, that the Trust maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). The Trust's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Trust's internal control over financial reporting based on our audit.

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

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

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

In our opinion, management's assessment that the Trust maintained effective internal control over financial reporting as of December 31, 2006 is fairly stated, in all material respects, based on criteria established in Internal Control — Integrated Framework issued by the COSO. Furthermore, in our opinion, the Trust maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006 based on criteria established in Internal Control — Integrated Framework issued by the COSO.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
Calgary, Alberta
February 22, 2007

Consolidated Statements of Income and Unitholders' Equity

For the years ended December 31

($ millions, except per Trust Unit amounts)	*2006*	*2005*
Revenues	**$ 2,692**	$ 2,019
Crude oil purchases, transportation and marketing expense	**(260)**	(52)
	2,432	1,967
Expenses		
Operating	**907**	731
Non-production	**70**	85
Crown royalties *(Note 17)*	**232**	19
Administration	**17**	12
Insurance	**6**	8
Interest, net *(Note 14)*	**98**	104
Depreciation, depletion and accretion *(Note 5)*	**255**	198
Foreign exchange gain	**(5)**	(29)
Large Corporations Tax and other *(Note 11)*	**(1)**	7
Future income tax expense *(Note 11)*	**18**	1
	1,597	1,136
Net income from continuing operations	**835**	831
Loss from discontinued operations *(Note 3)*	**(1)**	–
Net income	**$ 834**	$ 831
Unitholders' equity, beginning of year	**$ 3,383**	$ 2,636
Net income	**834**	831
Issuance of Trust Units *(Note 12)*	**250**	99
Unitholder distributions *(Note 15)*	**(512)**	(184)
Contributed surplus	**1**	1
Unitholders' equity, end of year	**$ 3,956**	$ 3,383
Weighted-average Trust Units	**466**	459
Trust Units, end of year	**471**	463
Net income per Trust Unit[1]:		
Basic *(Note 12(c))*	**$ 1.79**	$ 1.81
Diluted *(Note 12(c))*	**$ 1.78**	$ 1.80

See Notes to Consolidated Financial Statements.

1 *Discontinued operations did not have a material impact on basic or diluted net income per Trust Unit.*

Consolidated Balance Sheets

As at December 31

($ millions)	*2006*	*2005*
Assets		
Current assets		
Cash and cash equivalents	**$ 353**	$ 88
Accounts receivable	**244**	197
Inventories *(Note 4)*	**84**	87
Prepaid expenses	**7**	3
	688	375
Property, plant and equipment, net *(Note 5)*	**5,739**	5,502
Other assets		
Goodwill *(Note 3)*	**52**	–
Assets held for sale *(Note 3)*	**6**	–
Reclamation trust *(Note 9)*	**30**	25
Deferred financing charges, net and other	**17**	23
	105	48
	$ 6,532	$ 5,925
Liabilities and Unitholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	**$ 304**	$ 281
Current portion of employee future benefits *(Note 6)*	**11**	10
	315	291
Employee future benefits and other liabilities *(Note 6)*	**100**	93
Long-term debt *(Note 8)*	**1,644**	1,737
Asset retirement obligation *(Note 9)*	**173**	148
Deferred currency hedging gains *(Note 10)*	**35**	34
Future income taxes *(Note 11)*	**309**	239
	2,576	2,542
Unitholders' equity *(Note 12)*	**3,956**	3,383
	$ 6,532	$ 5,925
Commitments and Contingencies *(Note 18)*		

See Notes to Consolidated Financial Statements.

Approved by the Board of Directors

Director

Director

Consolidated Statements of Cash Flows

For the years ended December 31

($ millions)	*2006*	*2005*
Cash provided by (used in)		
Operating activities		
Net income	**$ 834**	$ 831
Items not requiring outlay of cash		
Depreciation, depletion and accretion	**255**	198
Amortization	**3**	3
Foreign exchange on long-term debt	**(1)**	(36)
Future income tax expense	**18**	1
Other	**1**	2
Net change in deferred items	**10**	6
Funds from operations	**1,120**	1,005
Change in non-cash working capital *(Note 20(a))*	**22**	(56)
Cash from operating activities	**1,142**	949
Financing activities		
Net drawdown (repayment) of bank credit facilities *(Note 8)*	**(92)**	73
Unitholder distributions *(Note 15)*	**(512)**	(184)
Issuance of Trust Units *(Note 12(a))*	**250**	99
Change in non-cash working capital *(Note 20(a))*	**–**	(46)
Cash used in financing activities	**(354)**	(58)
Investing activities		
Capital expenditures	**(300)**	(800)
Acquisition of Canadian Arctic Gas Ltd. *(Note 3)*	**(199)**	–
Disposition of properties *(Note 3)*	**28**	–
Reclamation trust	**(5)**	(4)
Change in non-cash working capital *(Note 20(a))*	**(47)**	(17)
Cash used in investing activities	**(523)**	(821)
Increase in cash and cash equivalents	**265**	70
Cash and cash equivalents, beginning of year	**88**	18
Cash and cash equivalents, end of year	**$ 353**	$ 88
Cash and cash equivalents consist of:		
Cash	**$ 8**	$ 2
Short-term investments	**345**	86
	$ 353	$ 88

Supplementary Information *(Note 20(b))*

See Notes to Consolidated Financial Statements.

1) STRUCTURE OF CANADIAN OIL SANDS TRUST

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

During 2006 and 2005, the Trust indirectly owned a 35.49% interest ("Working Interest") in the Syncrude Joint Venture ("Syncrude") which is involved in the mining and upgrading of bitumen from oil sands in Northern Alberta and operated by Syncrude Canada Ltd. ("Syncrude Canada"). On January 2, 2007, a subsidiary of the Trust acquired an additional 1.25% interest in Syncrude (Note 22), raising the Working Interest to 36.74%.

2) SUMMARY OF ACCOUNTING POLICIES

Consolidation

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

Cash and cash equivalents

Investments with maturities of less than three months at purchase are considered to be cash equivalents and are recorded at cost, which approximates market value.

Property, plant and equipment

Property, plant and equipment ("PP&E") include oil sands assets and varying interests in natural gas licenses located in the Arctic Islands in Northern Canada ("the Arctic assets"). The oil sands assets are recorded at cost and include the costs of acquiring the Working Interest and subsequent additions to PP&E, which include those costs that are directly related to the exploration, development and construction of oil sands projects. Also included in the oil sands assets is the estimated fair value of Canadian Oil Sands' asset retirement obligation (Note 9). Overburden removal, repairs and maintenance, and turnaround costs are expensed in the period incurred. Proceeds from the sale of oil sands assets are deducted from the capital base without recognition of a gain or loss, unless crediting the proceeds against accumulated costs would result in a material change in the rate of depreciation and depletion.

Oil sands assets are depreciated and depleted on the unit-of-production method based on estimated proved plus probable reserves. For purposes of the depreciation and depletion provision, capital costs include future capital costs expected to be necessary in the mining, extraction and upgrading process to recover the estimated proved plus probable reserves.

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

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

Goodwill

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

Inventories

Product inventories are valued at the lower of the average cost of production for the period and their net realizable value. Materials and supplies inventories are valued at the lower of average cost and replacement cost.

Asset retirement obligation

The estimated fair value of the Trust's 35.49% share of Syncrude's retirement obligations pertaining to PP&E is recognized on the Trust's Consolidated Balance Sheet. Syncrude's reclamation obligations relate to the site restoration of each mine site, of which the discounted full amount of the liability is recorded upon initial land disturbance, or when a reasonable estimate of the amount and timing of the reclamation expenditures can be determined. The fair value is determined by estimating the timing and amounts of the future reclamation expenditures, and discounting the expenditures using a credit-adjusted risk free rate applicable to the Trust. The asset retirement cost is equal to the estimated fair value of the asset retirement obligation, and is capitalized as part of the Trust's PP&E. These capital assets are depreciated using the unit-of-production method. The obligation is accreted based on the Trust's applied discount rate. The depreciation expense and accretion expense are reflected in the Trust's depreciation, depletion and accretion ("DD&A") expense in consolidated net income.

Actual reclamation costs are charged against the accumulated obligation when incurred.

Derivative financial instruments

Canadian Oil Sands may enter into derivative financial instrument contracts such as foreign currency exchange rate, crude oil and natural gas price contracts to hedge fluctuations in exchange rates, and the prices of crude oil and natural gas. Canadian Oil Sands may also enter into interest rate swap agreements to manage its interest rate risk.

Pursuant to Canadian Oil Sands' risk management policies, relationships between hedging instruments and hedged items and the strategy for undertaking the hedge transaction are documented. Canadian Oil Sands records the derivative contract as a hedge for accounting purposes when, at the time of initiating the contract, it is identified as a hedge of a specific transaction and, at both the inception of the contract and on an ongoing basis, Canadian Oil Sands assesses the derivative instrument as effective in offsetting cash flows of the hedged item. Canadian Oil Sands uses a statistical methodology called correlation analysis to test effectiveness of its crude oil and foreign exchange financial instruments on a quarterly basis. For its interest rate swaps which qualify as hedges, an effectiveness test is not required each quarter as long as the critical terms of the swap contract continue to match the underlying debt instrument. Canadian Oil Sands reviews the critical terms of the swap contract against the terms of the debt each quarter.

If a derivative contract cannot be designated as a hedge under Canadian GAAP or the hedge is no longer effective, then mark-to-market accounting is used, whereby the fair value of the contract is recorded on the balance sheet as an asset or liability. Subsequent changes in the fair value of the asset or liability are recognized in other income, which is included in net interest expense on the income statement, when those changes occur.

Gains and losses on hedge contracts which qualify for hedge accounting are recognized in net income and cash flows when the related revenues, costs, interest expense and cash flows are recognized. Crude oil and foreign currency hedging gains and losses are included in revenues as incurred. As natural gas is used in the production of Syncrude™ Sweet Blend ("SSB"), any natural gas hedging gains and losses are included in operating expenses. For interest rate swaps that qualify for hedge accounting, any gains or losses on the swaps are included in net interest expense as incurred.

Revenue recognition

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

Employee future benefits

Canadian Oil Sands accrues its obligations as a joint venture owner in respect of Syncrude Canada's employee benefit plans and the related costs, net of plan assets. The cost of employee pension and other retirement benefits is actuarially determined using the projected benefit method based on length of service and reflects 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% of the greater of the benefit obligation and fair value of the plan assets is amortized over the EARSL (Note 6(a)).

Future income taxes

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

Stock-based compensation

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

Canadian Oil Sands also recognizes stock-based compensation expense related to its performance units ("PUPs"), which are awards granted to officers, other select employees and consultants of the Trust and its affiliates under the Trust's performance unit incentive plan. Canadian Oil Sands determines compensation expense based on the estimated fair values of the PUPs, the cost of which is recognized in net income over the vesting periods of the PUPs.

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

Foreign currency translation

Canadian Oil Sands receives a portion of its revenues, incurs various expenses, and has U.S. dollar denominated debt, which result in monetary assets and liabilities denominated in U.S. dollars. These U.S. denominated balances are translated to Canadian dollars at exchange rates in effect at the end of the period, with the resulting gain or loss being recorded in the income statement. Translation gains and losses on U.S. denominated long-term debt are recorded as unrealized and excluded from cash from operating activities. All other translation gains and losses, which relate to the translation of U.S. denominated cash, accounts receivable and accounts payable and accrued liabilities, are classified as realized since they are settled in less than one year.

Net income per Unit

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

Measurement uncertainty

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

3) ACQUISITION OF CANADIAN ARCTIC GAS LTD. AND DISPOSITION OF CERTAIN RELATED PROPERTIES

In the third quarter of 2006, through a take-over bid process, Canadian Oil Sands acquired approximately 78% of the common shares of Canada Southern Petroleum Ltd. ("Canada Southern") for US$13.10 per share, for total consideration of approximately Cdn$174 million ($151 million net of $23 million cash acquired), including acquisition-related costs of approximately $1 million. On October 25, 2006, Canadian Oil Sands completed its acquisition of the remaining 22% of the outstanding common shares for additional consideration of approximately Cdn$49 million ($48 million net of $1 million cash acquired), including acquisition-related costs of approximately $1 million. Concurrent with the final purchase of shares, Canada Southern was amalgamated with another two subsidiaries of Canadian Oil Sands to form Canadian Arctic Gas Ltd. ("Canadian Arctic").

The acquisition was accounted for as a business purchase between arms length parties, in accordance with GAAP. The total purchase price was allocated based on fair values to the assets and liabilities as follows:

Net assets and liabilities assumed	
Property, plant and equipment	$ 165
Cash	24
Goodwill[1]	52
Assets held for sale[2]	34
Future income taxes	(52)
	$ 223
Consideration	
Cash	$ 221
Costs associated with acquisition	2
	$ 223

1 *Goodwill is entirely due to the temporary differences created between the tax basis of the Arctic assets compared to the fair value of such assets. Goodwill is not subject to amortization, but is tested annually for impairment, or more frequently if events or circumstances arise that could result in impairment.*

2 *Assets held for sale include $35 million of oil and gas properties and equipment, working capital of $3 million, less asset retirement obligations of $3 million and estimated costs to sell the properties of $1 million.*

As at December 31, 2006, Canadian Oil Sands disposed of a portion of Canadian Arctic's conventional oil and gas exploration and development properties (the "conventional assets") for proceeds of approximately $28 million. No gain or loss was recorded on the sale of the conventional assets as the carrying values approximated the consideration received. These properties did not generate material revenue or pre-tax earnings in the period which Canadian Oil Sands owned them prior to disposal.

Canadian Oil Sands continues to hold the Arctic assets and the remaining conventional assets, which are currently being marketed for sale. The remaining conventional assets and related working capital and liabilities have been recorded at fair values, less the estimated costs to sell the assets, and classified as "Held for sale" in the Trust's Consolidated Balance Sheet at December 31, 2006. The results of operations of the conventional assets of Canadian Arctic are considered discontinued operations on the Trust's Consolidated Statement of Income and Unitholders' Equity as there will be no continuing involvement by Canadian Oil Sands in the operations of the conventional assets once they have been sold. The discontinued operations include Canadian Oil Sands' share of Canadian Arctic's loss from the conventional assets from the date of the initial take-up of shares in the third quarter to the end of the year.

4) INVENTORIES

	2006	2005
Materials and supplies	$ 64	$ 61
Product and linefill	20	26
	$ 84	$ 87

5) PROPERTY, PLANT AND EQUIPMENT, NET

December 31, 2006	Cost	Accumulated Depreciation and Depletion	Net Book Value
Oil sands assets	$ 6,633	$ 1,059	$ 5,574
Arctic assets	165	–	165
	$ 6,798	$ 1,059	$ 5,739
December 31, 2005			
Oil sands assets	$ 6,316	$ 814	$ 5,502

The net book value of the Arctic assets acquired in 2006 is not being amortized as the related properties have not yet been developed.

Total DD&A expense is comprised of the following amounts for the year ended December 31:

	2006	2005
Depreciation and depletion expense	$ 246	$ 169
Accretion expense	9	29
	$ 255	$ 198

6) EMPLOYEE FUTURE BENEFITS AND OTHER LIABILITIES

	2006	2005
Employee future benefits *(a)*	$ 108	$ 99
Other	3	4
	111	103
Less current portion of employee future benefits	(11)	(10)
	$ 100	$ 93

a) Employee future benefits

Syncrude Canada has a defined benefit and two defined contribution plans providing pension benefits, and other retirement and post-employment benefit plans covering most of its employees. Other post-employment benefits include certain health care and life insurance benefits for retirees, their beneficiaries and covered dependants.

Defined benefit plan

Syncrude measures its accrued benefit obligation and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuation of the pension plans for funding purposes was as of December 31, 2003, and the next required valuation will be as of December 31, 2006, and is expected to be completed by the second quarter of 2007.

Canadian Oil Sands' share of Syncrude Canada's defined benefit plan accrued liability, based on its 35.49% ownership at December 31 for each of 2006 and 2005, is comprised of its share of Syncrude Canada's accrued benefit obligation, partially offset by its share of Syncrude Canada's defined benefit plan assets as follows:

	Pension Benefit Plan		Other Post-Employment Benefits		Total	
	2006	2005	2006	2005	2006	2005
Accrued benefit obligation:						
Balance - Beginning of year	$ 498	$ 412	$ 37	$ 38	$ 535	$ 450
Current service cost	21	17	1	2	22	19
Interest cost	25	24	2	2	27	26
Transferred in	5	4	–	–	5	4
Benefits paid	(16)	(14)	(1)	(1)	(17)	(15)
Actuarial loss (gain)	–	55	–	(4)	–	51
Balance - End of year	$ 533	$ 498	$ 39	$ 37	$ 572	$ 535
Fair value of plan assets:						
Actuarial fair value - Beginning of year	$ 287	$ 247	$ –	$ –	$ 287	$ 247
Actual return on plan assets	41	28	–	–	41	28
Employer contributions	22	21	–	–	22	21
Contributions - transfers	5	4	–	–	5	4
Benefits paid	(16)	(13)	–	–	(16)	(13)
Actuarial fair value - End of year	339	287	–	–	339	287
Funded status - Plan deficit	(194)	(211)	(39)	(37)	(233)	(248)
Unamortized net actuarial loss[1]	120	144	6	7	126	151
Unamortized past service costs[1]	1	1	(2)	(3)	(1)	(2)
Accrued benefit liability	$ (73)	$ (66)	$ (35)	$ (33)	$ (108)	$ (99)

1 *Amortized over the expected average remaining service lives of employees covered by the plan, generally 12 years.*

The asset allocation for Syncrude Canada's plan assets as of December 31 was as follows:

	Percentage of plan assets	
	2006	2005
Equity securities	70	70
Debt securities	30	30
	100	100

Elements of defined benefit costs recognized in the year:

	Pension Benefit Plan		Other Post-Employment Benefits		Total	
	2006	2005	2006	2005	2006	2005
Current service cost	$ 21	$ 17	$ 1	$ 2	$ 22	$ 19
Interest cost	25	24	2	2	27	26
Actual return on plan assets	(41)	(28)	–	–	(41)	(28)
Actuarial loss (gain)	–	55	–	(4)	–	51
Elements of employee future benefits costs before adjustments to recognize the long-term nature of employee future benefit costs	$ 5	$ 68	$ 3	$ –	$ 8	$ 68
Adjustments to recognize the long-term nature of employee future benefit costs:						
Difference between expected return and actual return on plan assets	16	6	–	–	16	6
Difference between actuarial loss (gain) recognized for year and actual actuarial loss (gain) on accrued benefit obligation for year	8	(50)	–	2	8	(48)
Difference between amortization of past service costs for year and actual plan amendments for year	–	–	–	2	–	2
	24	(44)	–	4	24	(40)
Defined benefit costs recognized in net income	$ 29	$ 24	$ 3	$ 4	$ 32	$ 28

Significant assumptions

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

	Pension Benefit Plan		Other Post-Employment Benefits	
	2006	2005	2006	2005
Accrued benefit obligation as of December 31:				
Discount rate	5.0%	5.0%	5.0%	5.0%
Rate of compensation increase	4.0%	4.0%	4.0%	4.0%
Benefit costs for years ended December 31:				
Discount rate	5.0%	5.75%	5.0%	5.75%
Expected long-term rate of return on plan assets	8.5%	8.5%	N/A	N/A
Rate of compensation increase	4.0%	4.0%	4.0%	4.0%

For measurement purposes, a 9% annual rate of increase in the cost of supplemental health care benefits was assumed for 2006 (2005 – 9.5%), decreasing by 0.5% each year thereafter to a 5% ultimate rate. In addition, annual rate increases of 3% in Alberta health care premiums and 4% in dental rates were used in 2006 and 2005.

Sensitivity analysis

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans under other post-employment benefits. A 1% increase (decrease) in assumed health care cost trend rates would have increased (decreased) the Trust's accrued benefit obligation by $3 million, but would not have had a material impact on the Trust's current service and interest cost.

Defined contribution plans

Canadian Oil Sands' share of the total expense, based on its 35.49% working interest during 2006 and 2005 for Syncrude Canada's defined contribution pension plans was approximately $2 million in each year.

Total cash payments

Canadian Oil Sands' share of Syncrude's total cash payments for employee future benefits for 2006, consisting of cash contributed by Syncrude Canada to its funded pension plans, cash to fund pension payments in excess of registered plan limits, cash payments directly to beneficiaries for its unfunded other benefit plans, and cash contributed to its defined contribution plans, was $26 million (2005 - $25 million), based on its 35.49% ownership in 2006 and 2005.

7) BANK CREDIT FACILITIES

	Credit facility
Extendible revolving term facility *(a)*	$ 40
Line of credit *(b)*	35
Operating credit facility *(c)*	800
	$ 875

Each of the credit facilities of Canadian Oil Sands Limited ("COSL") is unsecured and contains typical covenants relating to the restriction on Canadian Oil Sands' ability to sell all or substantially all of its assets or to change the nature of its business. In addition, Canadian Oil Sands has agreed to maintain its total debt-to-total book capitalization at an amount less than 0.60 to 1.0, or 0.65 to 1.0 in certain circumstances involving acquisitions.

a) Extendible revolving term facility

The $40 million extendible revolving term facility is a 364-day facility with a one year term out, expiring April 25, 2007. 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.

b) Line of credit

The $35 million line of credit is a one year revolving letter of credit facility. Letters of credit drawn on the facility mature April 30th each year and are automatically renewed, unless cancelled by Canadian Oil Sands or the financial institution providing the facility within 60 days prior to expiry. Letters of credit on this facility bear interest at a credit spread.

Letters of credit of approximately $49 million have been written against the extendible revolving term facility and line of credit as disclosed in Note 19.

c) Operating credit facility

The $800 million operating credit facility is a five year facility, expiring April 27, 2011. 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, 2006, no amounts were drawn on the operating credit facilities (2005 - $92 million).

8) LONG-TERM DEBT

	2006	2005
3.95% medium term notes due January 15, 2007 *(a)*	$ 175	$ 175
Floating rate medium term notes due January 15, 2007 *(a)*	20	20
7.625% Senior Notes due May 15, 2007 *(b)*	81	82
5.75% medium term notes due April 9, 2008 *(c)*	150	150
5.55% medium term notes due June 29, 2009 *(d)*	200	200
4.8% Senior Notes due August 10, 2009 *(e)*	291	291
5.8% Senior Notes due August 15, 2013 *(f)*	350	350
7.9% Senior Notes due September 1, 2021 *(g)*	291	291
8.2% Senior Notes due April 1, 2027 *(h)*	86	86
Credit facilities drawn, excluding letters of credit *(Note 6)*	–	92
	$ 1,644	$ 1,737

All of Canadian Oil Sands' medium term notes and Senior Notes are unsecured, rank pari passu with other senior unsecured debt of COSL, and contain certain covenants which place limitations on the sale of assets and the granting of liens or other security interests. The medium term notes are guaranteed by the Trust.

a) 3.95% Medium Term Notes and Floating Rate Medium Term Notes

On January 15, 2004 COSL issued $20 million of floating rate unsecured medium term notes as well as $175 million of 3.95% unsecured medium term notes. The fixed interest rate debt was swapped into floating rates pursuant to interest rate swap agreements (Note 16(b)(ii)). Interest on the 3.95% notes was payable semi-annually on January 15 and July 15. Interest on the floating rate notes was payable quarterly on January 15, April 15, July 15, and October 15. Both the floating rate and 3.95% medium term notes matured and were repaid on January 15, 2007.

b) 7.625% Senior Notes

On May 20, 1997 COSL issued US$70 million of 7.625% Senior Notes, maturing May 15, 2007. Interest rate swap agreements (Note 16(b)(i)) were entered into to swap the interest rate to a 5.95% fixed rate U.S. dollar payment. Interest is payable on the notes semi-annually on May 15 and November 15.

c) 5.75% Medium Term Notes

On April 8, 2003 COSL issued $150 million of 5.75% unsecured medium term notes, maturing April 9, 2008. Interest is payable on the notes semi-annually on April 9 and October 9.

d) 5.55% Medium Term Notes

On June 29, 2004 COSL issued $200 million of 5.55% unsecured medium term notes, maturing June 29, 2009. Interest is payable on the notes semi-annually on June 29 and December 29.

e) 4.8% Senior Notes

On August 9, 2004 COSL issued US$250 million of 4.8% Senior Notes, maturing August 10, 2009. Interest is payable on the notes semi-annually on February 10 and August 10.

f) 5.8% Senior Notes

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

g) 7.9% Senior Notes

On August 24, 2001 COSL issued US$250 million of 7.9% Senior Notes, maturing September 1, 2021. Interest is payable on the notes semi-annually on March 1 and September 1. COSL has agreed to maintain its senior debt to book capitalization at an amount less than 0.55 to 1.0.

h) 8.2% Senior Notes

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

i) Future payments payable under long-term debt are as follows:

2007	$ 276
2008	150
2009	491
After five years	727
	$ 1,644

Canadian Oil Sands intends to refinance on a long-term basis the 3.95% medium term notes, the floating rate medium term notes, and the 7.625% Senior Notes, which are maturing in 2007. The Trust has $824 million of unutilized operating credit facilities at December 31, 2006 to draw on to refinance these obligations, and $800 million of these facilities do not expire until April 27, 2011. In accordance with EIC-122, debt maturing in 2007 has not been reclassified to current liabilities.

9) ASSET RETIREMENT OBLIGATION AND RECLAMATION TRUST

	2006	2005
Asset retirement obligation - Beginning of year	$ 148	$ 44
Liabilities settled	(2)	(2)
Accretion expense	9	29
Revisions to estimated cash flows	18	77
Asset retirement obligation - End of year	$ 173	$ 148

Canadian Oil Sands and each of the other owners of Syncrude are liable for their share of ongoing environmental obligations for the ultimate reclamation of the Syncrude Joint Venture on abandonment. The Trust estimates reclamation expenditures will be made over approximately the next 60 years, and has applied an average credit-adjusted risk free discount rate of approximately 6% in deriving the asset retirement obligation.

Syncrude's upgrader facilities have indeterminate useful lives. Therefore, the fair values of the related asset retirement obligations cannot be reasonably determined. Also, the timing and amount of the reclamation expenditures, if any, related to Syncrude's sulphur blocks are not determinable at the present time. The asset retirement obligations pertaining to the upgrader facilities and the sulphur blocks will be recognized in the year in which the settlement amounts and dates can be reasonably estimated.

The total undiscounted estimated cash flows required to settle the Trust's share of the Syncrude obligation rose to $595 million in 2006 (2005 - $525 million), primarily the result of revised estimates for reclamation material handling contract costs and adjustments for industry-wide cost escalations. Discounting these incremental cash flows resulted in an $18 million increase in the asset retirement obligation at December 31, 2006.

The reclamation expenditures will be funded from the Trust's cash from operating activities and from the Trust's mining reclamation trust. The Trust paid $2 million in each of 2006 and 2005 for its share of Syncrude's reclamation expenditures. The Trust deposits $0.1322 per barrel of production attributable to its 35.49% working interest to a mining reclamation trust established for the purpose of funding the operating subsidiaries' share of environmental and reclamation obligations. As at December 31, 2006, including interest earned on the account, the balance of the mining reclamation trust was $30 million.

In addition, the Trust has posted letters of credit with the Province of Alberta in the amount of $49 million (2005 - $42 million) to secure its pro rata share of the ultimate reclamation obligations of the Syncrude Joint Venture participants.

10) DEFERRED CURRENCY HEDGING GAINS

Canadian Oil Sands is exposed to fluctuations in the U.S.-Canadian currency exchange rate. In 1996, Canadian Oil Sands entered into currency hedging contracts to fix the exchange rate in future years. During 1999, Canadian Oil Sands unwound various positions and exchanged the resulting gain for adjustments to other existing currency contracts. During 2006, Canadian Oil Sands received payments totalling $3 million (2005 – $6 million) related to the unrecognized gain. In 2006, the Trust recognized $2 million in revenues (2005 – nil) related to the deferred gains. The remaining cumulative deferral of $35 million included in currency hedging gains will be recognized as revenue over the period 2007 to 2016, which is when the hedging contracts would have expired had they not been unwound (Note 16(a)).

11) INCOME TAXES

Payments received by the Trust in the form of royalty payments, interest, dividends, distributions or other income from its subsidiaries are taxable income to the Trust. Under current tax legislation, the Trust is entitled to deduct its cost of acquiring trust royalties, its administrative costs and taxable distributions to Unitholders from its taxable income.

The Trust's most significant operating subsidiary is COSL, which is subject to tax in the same manner as any other corporation. However, as royalty and interest payments made by COSL to the Trust and COSL's affiliates are deductible in computing its taxable income, COSL is not expecting to pay significant cash taxes under existing income tax legislation.

The tax provision recorded on the consolidated financial statements differs from the amount computed by applying the combined Canadian federal and provincial income tax statutory rate to income before tax as follows:

	2006	2005
Income before taxes	$ 851	$ 839
Statutory rates		
Federal	33.00%	36.00%
Federal abatement	-10.00%	-10.00%
Federal surtax	1.12%	1.12%
Alberta provincial rate	10.38%	11.50%
	34.50%	38.62%
Expected taxes at statutory rate	$ 294	$ 324
Add (Deduct) the tax effect of:		
Net income of the Trust - tax sheltered	(260)	(297)
Resource allowance	(39)	(27)
Non-deductible Crown charges	44	4
Capital tax	–	8
Tax rate changes	(36)	1
Assessments and adjustments	14	2
Other	–	(7)
Provision for taxes	$ 17	$ 8

Canadian Oil Sands' income taxes are calculated according to government tax laws and regulations, which results in different values for certain assets and liabilities for income tax purposes than for financial statement purposes. The amount shown on the Consolidated Balance Sheet as future income taxes represents the net differences between tax values and book carrying values on the operating subsidiaries' Balance Sheets at substantively enacted tax rates expected to apply when the differences reverse.

As at December 31, future income taxes are comprised of the following:

	2006	2005
Capital and other assets in excess of tax value	$ (826)	$ (720)
Net liabilities in excess of tax value	517	481
Balance at December 31	$ (309)	$ (239)

As at December 31, 2006, the following are the estimated balances available for deduction against future taxable income:

	2006
Canadian Oil Sands Trust:	
Canadian Development Expense[1]	$ 90
Equity Issue Costs	$ 7
Canadian Oil Sands Limited and other operating subsidiaries:	
Undepreciated Capital Costs ("UCC")[2]	
Federal UCC	$ 2,204
Provincial UCC	$ 1,991
Scientific Research and Exploration Development	$ 7
Debt Issue Costs	$ 5

1 *Deductible at a declining balance rate of 30% annually.*

2 *Majority deductible at a declining balance rate of 25% annually as well as an accelerated rate based on the "income from a mine". Approximately $71 million is not available for use, primarily related to Syncrude's Emissions Reduction project.*

12) UNITHOLDERS' EQUITY

	2006	2005
Accumulated earnings	$ 3,410	$ 2,576
Accumulated unitholder distributions	(1,718)	(1,206)
Retained earnings	1,692	1,370
Unitholders' capital *(a)*	2,260	2,010
Contributed surplus	4	3
	$ 3,956	$ 3,383

a) Unitholders' capital

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

In 2006, 8.3 million Units were issued (2005 – 5.3 million) for proceeds of approximately $250 million (2005 - $99 million), primarily related to the Premium Distribution, Distribution Reinvestment and Optional Unit Purchase Plan ("DRIP") with respect to the distributions paid on February 28, 2006, May 31, 2006, August 31, 2006 and November 30, 2006. Units issued prior to May 2006 have been adjusted to reflect the 5:1 Unit split, which occurred on May 3, 2006.

The following table summarizes the Units that have been issued:

Date	*Net Proceeds per Unit*	*Number of Units*	*Net Proceeds*
Balance, January 1, 2005		457.2	$ 1,911
February 28, 2005	$ 15.20	1.2	18
May 31, 2005	$ 14.93	1.3	19
August 31, 2005	$ 21.54	1.0	21
November 30, 2005	$ 21.38	1.9	41
Balance, December 31, 2005		462.6	$ 2,010
February 28, 2006	$ 28.14	1.5	42
May 31, 2006	$ 31.75	2.2	68
August 31, 2006	$ 34.44	2.0	69
November 30, 2006	$ 27.67	2.5	70
Option exercises during the year	$ 8.60	0.1	1
Balance, December 31, 2006		470.9	$ 2,260

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

b) Premium Distribution, Distribution Reinvestment and Optional Unit Purchase Plan

In January 2002, the Trust received regulatory approval in Canada for the DRIP. Eligible Unitholders were able to participate in the DRIP for the quarterly distributions payable subject to enrollment and certain other conditions. The DRIP allowed eligible Unitholders to direct their distributions to the purchase of additional Units at 95% of the Average Market Price, as defined in the DRIP. The DRIP also provided an alternative whereby eligible Unitholders could, under the premium distribution component, have had their distributions invested in new Units and exchanged through the Plan broker for a premium distribution equal to up to 102% of the amount that the other Unitholders would otherwise have received on the distribution date. Under the terms of the DRIP, Unitholders had the option to purchase additional Units for cash at 100% of the Average Market Price if they had participated in either of the premium distribution or distribution reinvestment components of the DRIP.

The DRIP has been suspended as of January 31, 2007 as the Trust no longer requires this source of funding; however, it may reinstate the DRIP to fund future investing activities, if required.

c) Net Income per Unit

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

(millions)	*2006*	*2005*
Weighted-average Trust Units outstanding - Basic	466	459
Effect of options	2	–
Weighted-average Trust Units outstanding - Diluted	468	459

13) STOCK-BASED COMPENSATION

Canadian Oil Sands' stock-based compensation includes stock option and performance unit plan grants for COSL employees pursuant to a long term incentive program. In addition, Syncrude Canada has stock-based compensation plans for which Canadian Oil Sands records its 35.49% working interest.

a) Canadian Oil Sands' stock-based compensation plans

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

Unit Option and distribution equivalent plan/Unit incentive option plan

As at December 31, 2006, Canadian Oil Sands has 2,479,625 options issued under a unit option and distribution equivalent plan (the "2002 Plan") and 214,450 options issued under a unit incentive option plan (the "2005 Plan"). The initial exercise price of options granted under the 2002 Plan was based on the weighted-average price of the Units for the five days prior to the issuance of the options and the preceding day for options granted under the 2005 Plan. Subject to customary exceptions relating to retirement, death or termination, each option has a term of seven years and vests in equal amounts over a three-year period. For options granted under the 2005 Plan, the exercise price is reduced to the extent distributions exceed a threshold set by the Board of Directors at the time of the grant.

As at December 31, 2006 the following options were issued and outstanding:

Date	*Number of Options*	*Weighted-Average Exercise Price*
Outstanding at January 1, 2005	2.1	$ 8.14
Granted in 2005	0.5	$ 15.00
Outstanding at December 31, 2005	2.6	$ 9.44
Granted in 2006	0.2	$ 29.70
Exercised in 2006	(0.1)	$ (7.13)
Outstanding at December 31, 2006	2.7	$ 11.01
Exercisable at December 31, 2005	1.6	$ 7.93
Exercisable at December 31, 2006	2.0	$ 8.67

Exercise Price	*Number of Options Outstanding*	*Weighted-Average Remaining Life (Years)*	*Weighted-Average Exercise Price*
$6.95 - $14.69 (2002 Plan)	2.5	3.7	$ 9.45
$24.19 - $35.78 (2005 Plan)	0.2	6.1	$ 29.04
	2.7	3.9	$ 11.01

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

	2006	*2005*
Risk-free interest rate *(%)*	3.75	3.54
Expected life *(years)*	4.5	5
Expected volatility *(%)*	26	22
Expected distribution per Unit *($)*	0.80	0.40
Fair value per stock option *($)*	5.44	2.12

The weighted-average fair value of all options granted during the year was approximately $1 million (2005 - $1 million).

Performance Unit Incentive Plan

Canadian Oil Sands adopted a performance unit incentive plan ("the Incentive Plan") and granted awards of performance units ("PUPs") pursuant to this plan during 2006. The PUPs are earned on the third anniversary of the date of grant, at which time the holder is entitled to receive an amount either in the form of units or in cash equal to the aggregate current market value of the number of units subject to the PUPs. No units are to be issued from treasury and instead will be purchased in the secondary market. The number of units granted under the PUPs is dependent on the total unitholder return generated by the Trust at the end of the three years compared to a peer group, with the actual unit equivalents earned ranging from zero to double the target award.

The weighted-average fair value of all PUPs granted during the year was approximately $1 million.

Canadian Oil Sands recorded approximately $2 million in 2006 (2005 - $1 million) in Administration expense related to its stock-based compensation plans.

b) Syncrude Canada's stock-based compensation plans

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

Syncrude Canada's Incentive Restricted Share Units Plan

Syncrude Canada implemented an incentive restricted unit program in 2006, which awards restricted share units ("restricted units") to certain employees. The restricted units vest three years after the date of issuance and require settlement by cash payments. Employees who retire prior to the vesting period may be eligible to receive pro rated restricted units based upon the ratio of service provided during the vesting period relative to the full vesting period. The number of restricted units issued at the vesting date is dependent on the weighted-average price of the shares of certain of the Syncrude owners at that time and the total shareholder return of the owners' shares as compared to a relative peer group. At December 31, 2006 a total of 50,417 restricted units were outstanding, however none of these units were exercisable at year-end.

Syncrude Canada's Incentive Phantom Share Units Plan

Syncrude Canada implemented a stock-based compensation plan during 2002 which awarded phantom units to certain employees. The phantom units have value if the composite value of the weighted-average stock price of 70% of Canadian Oil Sands Trust's Units and 30% of various other joint venture owners' public shares at the time of exercise by Syncrude Canada employees exceeds the issue price of the awards. The phantom units issued up to 2005 had a term of seven years and vest based on a graded vesting schedule: after the first year of issuance, 50% of the phantom units are exercisable, 25% the following year and the last 25% after year three. Subject to customary exceptions relating to early retirement, death or termination, each phantom unit issued under this plan in 2006 has a term of seven years and vests in equal amounts over a three-year period. When the awards are exercised, they are settled in cash. At December 31, 2006 a total of one million phantom units were outstanding (2005 - 1.3 million), and a total of 0.4 million (2005 - 0.3 million) phantom units were exercisable.

In 2006, Canadian Oil Sands recorded approximately $27 million in operating expenses related to its 35.49% share of Syncrude Canada's stock-based compensation expense related to the above Syncrude plans (2005 - $36 million).

14) INTEREST, NET

	2006	2005
Interest expense on long-term debt	$ 102	$ 107
Interest income and other	(4)	(3)
Interest expense, net	$ 98	$ 104

15) UNITHOLDER DISTRIBUTIONS

The Consolidated Statements of Unitholder Distributions is provided to assist Unitholders in reconciling cash from operating activities to Unitholder distributions.

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

In 2005, distributions were paid to Unitholders on the last business day of the second month following the quarter and were recorded as payable at each quarter end even though they were not declared. Commencing in the fourth quarter of 2005, distributions are recorded in the quarter declared and paid. The change in recording Unitholder distributions had no impact on the ultimate distributions declared and paid to the Unitholders or to the timing of such payments nor did it impact Canadian Oil Sands' net income or cash from operating activities.

Consolidated Statements of Unitholder Distributions

For the years ended December 31	*2006*	*2005*
Cash from operating activities	$ 1,142	$ 949
Add (Deduct):		
Capital expenditures	(300)	(800)
Acquisition of Canadian Arctic Gas Ltd.	(199)	–
Disposition of properties	28	–
Non-acquisition financing, net[1]	(107)	102
Change in non-cash working capital[2]	(47)	(63)
Reclamation trust funding	(5)	(4)
Unitholder distributions	$ 512	$ 184
Unitholder distributions per Trust Unit	$ 1.10	$ 0.40

1 *Primarily represents net financing to fund the Trust's share of investing activities and is a discretionary item.*

2 *From financing and investing activities.*

16) DERIVATIVE FINANCIAL INSTRUMENTS

The fair values of financial instruments that are included in the Consolidated Balance Sheet, with the exception of the Senior Notes and medium term notes, approximate their recorded amount due to the short-term nature of those instruments. The fair values of the Senior Notes and medium term notes, based on third party market value indications, are as follows:

	2006		2005	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
3.95% medium term notes due January 15, 2007	$ 175	$ 175	$ 175	$ 175
Floating rate medium term notes due January 15, 2007	20	20	20	20
7.625% Senior Notes due May 15, 2007 (US$70 million)	81	82	82	84
5.75% medium term notes due April 9, 2008	150	152	150	155
5.55% medium term notes due June 29, 2009	200	205	200	208
4.8% Senior Notes due August 10, 2009 (US$250 million)	291	286	291	291
5.8% Senior Notes due August 15, 2013 (US$300 million)	350	349	350	354
7.9% Senior Notes due September 1, 2021 (US$250 million)	291	340	291	345
8.2% Senior Notes due April 1, 2027 (US$73.95 million)	86	101	86	106
	$1,644	$1,710	$1,645	$1,738

Canadian Oil Sands has entered into currency exchange contracts and interest rate swap agreements to minimize the impact of fluctuations in currency exchange and interest rates. Unrecognized gains (losses) on these risk management activities and the fair values of the derivative financial instruments as at December 31 were as follows:

	2006		2005	
	Unrecognized Gains (Losses)	Estimated Fair Value	Unrecognized Gains (Losses)	Estimated Fair Value
Currency exchange contracts *(a)*	$ 6	$ 6	$ 26	$ 25
7.625% Interest rate swap contracts *(b(i))*	N/A[1]	1	N/A[1]	2
3.95% Interest rate swap contracts *(b(ii))*	(1)	(1)	(1)	(1)
Total gains	$ 5	6	$ 25	$ 26

1 *Effective January 1, 2004, pursuant to AcG-13, the 7.625% interest rate swap does not qualify for hedge accounting, and therefore, the fair value of the swap is recognized on the Consolidated Balance Sheet.*

a) Currency exchange contracts

As at December 31, 2006, Canadian Oil Sands had entered into foreign exchange contracts to sell approximately US$20 million at a rate of US$0.692 during 2007. As at December 31, 2006, the unrecognized gain on forward foreign currency exchange contracts was $6 million (2005 – $26 million). In 1996, Canadian Oil Sands entered into currency exchange contracts, fixing the exchange rate on US$1.5 billion at approximately US$0.694 per Canadian dollar with quarterly cash settlements until June 2016. During 1999, Canadian Oil Sands exchanged gains on closing certain forward currency contracts for adjustments to the terms of existing currency contracts. These transactions eliminated currency exchange commitments beyond June 30, 2006, and swapped the underlying value for currency exchange contracts, which reduced the exchange rate to US$0.658 from US$0.694 on the remaining US$466 million of currency commitments.

In 2006, Canadian Oil Sands settled US$60 million of currency exchange contracts at a net gain of $23 million, and in 2005 it settled US$100 million in currency exchange contracts at a net gain of $29 million. Gains of $20 million and $24 million in 2006 and 2005, respectively, have been recognized in the income statement as an adjustment to revenues. The remaining portion of these realized gains of $3 million and $5 million for 2006 and 2005, respectively, relate to the unwound positions and were deferred. From July 1, 2006 to December 31, 2006 Canadian Oil Sands recognized revenues of $2 million related to these deferred gains. The remaining deferred gains of $35 million at December 31, 2006 will be recognized in revenues over 2007 to 2016. The deferred balance is reflected in the Consolidated Balance Sheet under "Deferred currency hedging gains" and is more fully described in Note 10.

b) Interest rate swap contracts

i) 7.625% Senior Notes

Canadian Oil Sands has entered into interest rate swap agreements which effectively convert the fixed rate U.S. dollar payments on the 7.625% Senior Notes to a 5.95% fixed rate U.S. dollar payment for the remaining term of the notes. The effective Canadian dollar interest rates were 5.8% and 6.2% in 2006 and 2005, respectively. Settlements on these contracts have been recorded as other income, rather than as a reduction of interest expense, as these swaps do not qualify as a hedge for accounting purposes.

ii) 3.95% Medium Term Notes

Canadian Oil Sands has entered into interest rate swap agreements which effectively convert the fixed rate Canadian dollar payments on the 3.95% medium term notes to a floating rate Canadian dollar payment for the remaining term of the notes. The effective interest rates were 4.0% and 2.8% in 2006 and 2005, respectively. These swap contracts qualify as hedges for accounting purposes, and as such, the settlements have been recorded in interest expense in the financial statements.

c) Credit risk

Crude oil sales revenue credit risk is managed by limiting the exposure to customers with a credit rating below investment grade to a maximum of 25% of Canadian Oil Sands' consolidated accounts receivable. The maximum exposure to any one customer is also limited based on the credit rating of that customer. Risk is further mitigated as sales revenue receivables typically are due and settled in the month following the sale. The use of financial instruments involves a degree of credit risk which Canadian Oil Sands manages through its credit policies and by selecting counterparties of high credit quality.

17) CROWN ROYALTIES

Under Alberta's generic Oil Sands Royalty, the Crown royalty is calculated as the greater of 1% of gross revenue after transportation costs or 25% of gross plant gate revenue before hedging, less Syncrude operating, non-production and capital costs. In May 2006, there was a shift in the royalty rate from the minimum 1% of gross revenues to 25% of net revenues. As at December 31, 2006, there are no carry forward deductions for royalty purposes.

18) COMMITMENTS AND CONTINGENCIES

Canadian Oil Sands is obligated to make future cash payments under existing contractual agreements that it has entered into either directly or as an owner in Syncrude. The following commitments that relate to Syncrude reflect Canadian Oil Sands' 36.74% working interest in the joint venture (Note 22).

a) Management Services Agreement

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

b) Natural gas purchase commitments

Syncrude has entered into multi-year purchase commitments for natural gas deliveries at floating market–related prices. There are two long-term natural gas supply contracts that expire on October 31, 2008 and October 31, 2010, respectively. The remaining contracts expire at varying dates during 2007, unless they are renewed. Canadian Oil Sands' 36.74% share of this commitment is for 38 million GJs.

c) Pension plan solvency deficiency payments

The latest actuarial valuation completed in 2004 for Syncrude Canada's defined benefit pension plan requires payments to fund the pension plan solvency deficiency. Canadian Oil Sands' 36.74% share of these funding requirements is $103 million over the next 12 years. Canadian Oil Sands' share of funding requirements related to Syncrude Canada's registered pension plan will be updated when Syncrude Canada's December 31, 2006 actuarial valuation is completed in the second quarter of 2007.

d) Expenditure commitments

The total estimated project cost of Syncrude's Stage 3 expansion as at February 22, 2007 is approximately $8.55 billion, or approximately $3.1 billion net to Canadian Oil Sands based on its 36.74% working interest. While the project is essentially complete, remaining expenditures of approximately $33 million, net to Canadian Oil Sands, remain to be incurred over the next two years. Canadian Oil Sands is also committed to remaining costs of approximately $232 million related to its 36.74% share of Syncrude's Emissions Reduction project, expected to be incurred over the next four years, as well as $29 million related to miscellaneous other capital commitments over the next two years.

Syncrude introduced an employee retention incentive program for permanent Fort McMurray based employees that began on April 1, 2006 and ends on March 31, 2009. Syncrude's estimated commitment related to the program for 2007 to 2009 is $166 million, or $61 million net to Canadian Oil Sands.

Syncrude has various vendor commitments owing in 2007 to 2009 for non-capital items of which the more significant purchases total $193 million, or $71 million net to Canadian Oil Sands.

e) Desulphurization unit

Syncrude has entered into an agreement with Marsulex Inc. to utilize flue gas from Coker 8-3 of Stage 3 to manufacture fertilizer. Under the agreement, which began in 2005 and has a minimum term of 15 years, Syncrude is committed to provide the waste stream from the Flue Gas Desulphurization Unit and pay an annual disposal fee. Syncrude receives a portion of the proceeds from the fertilizer sales as a cost recovery. Canadian Oil Sands' share of this commitment, before any recovery, is approximately $3 million per year.

f) Tax disputes

For the period prior to 2000, the tax filings for COSL's predecessors, Canadian Oil Sands Investments Inc. ("COSII") and Athabasca Oil Sands Investments Inc. ("AOSII"), have been reassessed and closed. AOSII's 2000 and 2001 and COSII's 2000, 2001 and 2002 Tax Returns have been reassessed by the Canada Revenue Agency ("CRA") and Notices of Objection have been filed pertaining to the Syncrude Remission Order and other items. AOSII's 2002 tax return is currently under review and is expected to be reassessed on a similar basis. The resolution of this dispute regarding the Syncrude Remission Order is not expected to result in significant additional cash taxes being paid, however an unfavorable resolution would reduce the amount of tax pools available for carry forward. Timing of resolution of this issue and the impact on tax pool balances was not determinable at December 31, 2006.

g) Pipeline commitments

Canadian Oil Sands has a long-term agreement with Alberta Oil Sands Pipeline Limited ("AOSPL") to transport production from the Syncrude plant gate to Edmonton, Alberta. The agreement provides for reimbursement on a cost of service basis, including operating expenses, cash taxes paid, and a return on the depreciated rate base. The agreement commits Canadian Oil Sands to pay its proportionate share of the cost of service whether or not it ships any volumes on the pipeline. The cost of service in 2006, based on Canadian Oil Sands' 35.49% working interest, was $21 million (2005 - $19 million). The projected cost of service for 2007 is $21 million, based on Canadian Oil Sands' 36.74% working interest, and is expected to remain around $20 million through 2035.

Canadian Oil Sands has additional pipeline commitments related to transporting production from Edmonton, Alberta on various pipelines in Canada and the United States. These agreements commit Canadian Oil Sands to pay approximately $13 million over 2007 and 2008.

Syncrude has a long-term agreement with TransCanada Pipelines Ventures L.P. to transport gas volumes to Syncrude, which expires in 2023. The agreement provides for a minimum delivery obligation of which Canadian Oil Sands' share is $1 million per year.

h) General

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

19) GUARANTEES

Canadian Oil Sands has posted performance standby letters of credit with the Province of Alberta which are renewed annually. The letters of credit guarantee to the Province of Alberta the reclamation obligations of Canadian Oil Sands' interest in future reclamation of the Syncrude mine sites. The Province of Alberta can draw on the letters of credit if Syncrude fails to perform its reclamation duties on its mine sites. The maximum potential amount of payments Canadian Oil Sands may be liable for pursuant to these letters of credit is $49 million. Canadian Oil Sands accrues an asset retirement obligation on its Consolidated Balance Sheet for its share of Syncrude's reclamation costs, which was $173 million at December 31, 2006.

20) SUPPLEMENTARY INFORMATION

a) Change in non-cash working capital

	2006	2005
Operating activities		
Accounts receivable	$ (47)	$ (51)
Inventories	3	(30)
Prepaid expenses	(4)	1
Accounts payable and accrued liabilities	23	7
Less: A/P change reclassed to investing	47	17
	$ 22	$ (56)
Financing activities		
Unit distribution payable	$ –	$ (46)
Investing activities		
Accounts payable and accrued liabilities	$ (47)	$ (17)

b) Interest and taxes paid

	2006	2005
Large Corporations and Income Tax paid	$ 5	$ 10
Interest charges paid	$ 100	$ 103

21) COMPARATIVE FIGURES

Comparative figures reflect the reclassification of crude oil purchases from revenues to conform to the current year's presentation. Trust Unit information has been adjusted to reflect the 5:1 Unit split, which occurred on May 3, 2006.

22) SUBSEQUENT EVENT

On January 2, 2007, the Trust closed an acquisition with Talisman Energy Inc. to purchase an additional 1.25% indirect interest in the Syncrude Joint Venture for approximately $475 million. The transaction price was comprised of $237.5 million in cash and 8,189,655 Units issued from treasury with an approximate value at the time of entering the acquisition agreement of $29 per Unit. As at February 22, 2007 the Trust owns 36.74% in the Syncrude Joint Venture.

($ millions, except as indicated)	**2006**	2005	2004	2003	2002
Revenues, after crude oil purchases, transportation and marketing expense	**2,432**	1,967	1,352	932	715
Operating costs	**907**	731	601	515	309
Non-production costs	**70**	85	48	38	19
Crown royalties	**232**	19	18	12	7
Administration	**17**	12	9	9	7
Insurance	**6**	8	9	7	6
Interest, net	**98**	104	95	68	39
Depreciation, depletion and accretion	**255**	198	172	93	54
Foreign exchange gain	**(5)**	(29)	(80)	(135)	(3)
Large Corporations Tax and other	**(1)**	7	(2)	17	6
Future income tax expense (recovery)	**18**	1	(27)	(2)	–
Loss from discontinued operations	**(1)**	–	–	–	–
Net income	**834**	831	509	310	271
Per Trust Unit[1] *($)*	**1.79**	1.81	1.14	0.78	0.95
Cash from operating activities	**1,142**	949	594	222	356
Per Trust Unit[1] *($)*	**2.45**	2.07	1.33	0.56	1.24
Unitholder distributions	**512**	184	180	170	115
Per Trust Unit[1] *($)*	**1.10**	0.40	0.40	0.40	0.40
Capital expenditures	**300**	800	942	786	403
Reserves *(billions of SSB bbls, net to COS)*					
Proved reserves	**1.0**	1.0	1.0	1.1	0.7
Proved plus probable reserves	**1.8**	1.8	1.8	1.8	N/A
Estimated recoverable resource *(includes proved plus probable reserves and contingent resources)*	**3**	3	3	3	2
Average daily sales *(bbls)*	**91,844**	75,994	84,575	66,793	49,806
Operating netback *($/bbl)*					
Net realized selling price, after hedging	**72.56**	70.91	43.68	38.23	39.35
Operating costs	**27.07**	26.34	19.40	21.12	16.99
Crown royalties	**6.93**	0.71	0.58	0.49	0.41
Netback price	**38.56**	43.86	23.70	16.62	21.95
Financial ratios					
Net debt to cash from operating activities *(times)*	**1.1**	1.7	2.8	6.4	1.1
Net debt to total capitalization *(%)*	**24.6**	32.8	39.0	40.3	29.0
Return on average productive capital employed *(%)*	**24.4**	37.1	21.5	15.2	34.1
Return on average Unitholders' equity *(%)*	**22.7**	27.6	21.4	20.2	31.3
Number of Trust Units outstanding *(in millions)*	**470.9**	462.6	457.2	436.0	288.4
$/Unit prices[1]					
High	**38.75**	28.60	13.64	9.14	8.97
Low	**24.32**	12.42	8.05	6.45	6.66
Close	**32.61**	25.20	13.52	9.14	7.61
Trading volume *(millions of Trust Units)*	**406.6**	356.9	389.2	227.1	166.5

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

OFFICERS

C. E. (Chuck) Shultz
Chairman of the Board

Marcel R. Coutu
President and Chief Executive Officer

Allen R. Hagerman, FCA
Chief Financial Officer

Trevor R. Roberts
Chief Operations Officer

Trudy M. Curran
General Counsel and Corporate Secretary

Ryan M. Kubik
Treasurer

Laureen C. DuBois
Controller

Siren Fisekci
Director, Investor Relations

BOARD OF DIRECTORS

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

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

E. Susan Evans, Q.C. [1, 2]
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The Right Honourable Donald F. Mazankowski [1]
Edmonton, Alberta

Wayne M. Newhouse [2, 3]
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TORONTO STOCK EXCHANGE

COS.UN

REGISTRAR AND TRANSFER AGENT

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

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2 Member of the Audit Committee

3 Member of the Reserves, Marketing Operations and Environmental, Health and Safety Committee

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NOTICE OF MEETING

Canadian Oil Sands' 2007 Annual General and Special Meeting will be held in the **Metropolitan Conference Centre, The Grand Lecture Theatre, 333 - 4th Avenue SW,** Calgary, Alberta, Canada on Wednesday, **April 25, 2007** at **2:30 pm** (MST). All Unitholders are invited to attend, and those unable to do so are requested to sign and return the form of proxy mailed with this report to ensure representation at the meeting.

Glossary

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

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

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

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

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

DEBOTTLENECK Debottlenecking systematically removes plant capacity limitations through modifications of existing facilities and/or addition of capital facilities. Debottlenecking commonly provides a 10-20% capacity improvement versus a major capital intensive expansion.

DIESEL CETANE COUNT A quality specification important in the production of diesel fuels.

DRAGLINE A large machine that digs oil sand from the mine pit and piles it into windrows.

EXTRACTION The process of separating bitumen from oil sand.

FEEDSTOCKS Raw material supplied to refinery, oil sands upgrader, or petrochemical plant.

FLUE GAS SCRUBBER / DESULPHURIZER Equipment that removes sulphur dioxide and other emissions.

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

GREENHOUSE GASES Any of various gases that contribute to the greenhouse effect.

LINE-OUT The process of optimizing an operational unit or facility to reach its design capacity.

OIL SAND(S) A composition of sand, bitumen, mineral rich clays and water.

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

ORE GRADE The percentage of bitumen by weight in the oil sands.

OVERBURDEN A mining term related to the thickness of material above oil sands deposits.

STRIP RATIO The ratio of waste (overburden material that covers mineable ore) to ore; used to define the quality of an oil sands ore body.

SULPHUR DIOXIDE (SO_2) A compound of sulphur and oxygen produced by burning sulphur.

SYNBIT Typically, a synbit blend is a ~50/50 mix of bitumen and synthetic crude oil.

SYNCRUDE 21 A multi-staged expansion plan Syncrude embarked in 1997, which is anticipated to increase productive capacity to over 500,000 barrels per day.

SYNCRUDE™ SWEET BLEND (SSB) A 100% upgraded, high-quality product with 31° to 33° API, low sulphur (0.1% to 0.2%), low residuals and excellent low-temperature pour qualities.

SYNCRUDE™ SWEET PREMIUM (SSP) A new product that is expected to be introduced in 2007; the quality of the distillate cuts will improve with lower sulphur and nitrogen levels as well as higher diesel cetane numbers and kerosene smoke points.

SYNTHETIC CRUDE OIL A high-quality product resulting from the mining, extraction and upgrading of thick, tar-like bitumen.

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

TOTAL VOLUME TO BITUMEN IN PLACE (TV/BIP) The total amount of ore plus overburden volume to total bitumen in place.

TURNAROUND A regular event essential for good maintenance of the mining, producing and upgrading facilities. A turnaround may reduce production but does not usually halt it entirely as the various operating units are duplicated.

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

Ratios:

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

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

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

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

Return on average productive capital employed Net income before net interest expense, future income tax, and foreign exchange gains/losses divided by average productive capital employed, which excludes major expansion projects not yet in use.

Abbreviations:

American Petroleum Institute specific gravity: *API*
barrel(s): *bbl, bbls*
barrel(s)/day: *bbl/d, bbls/d*
millions of barrels: *MMbbls*
carbon dioxide: *CO_2*
gigajoule: *GJ*
sulphur dioxide: *SO_2*
Syncrude Sweet Blend: *SSB*
Syncrude Sweet Premium: *SSP*
West Texas Intermediate: *WTI*

www.cos-trust.com

Canadian Oil Sands provides updates on the Trust and our Syncrude operations through our website, which includes:

- *Current Unit and crude oil prices*
- *News releases*
- *Annual report (full on-line version)*
- *Interim reports*
- *Investor presentations and webcasts*
- *Distribution information*
- *Syncrude project information*
- *Monthly production volumes*
- *Corporate Governance practices*

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