

president's message

Dear Unitholder,

Canadian Oil Sands Trust is the pre-eminent pure play investment in the oil sands. With the largest ownership in the Syncrude project, we are proud to have a legacy asset that epitomizes the best attributes of an oil sands investment: superior quality leases, a track record of successful operations, a proven ability to deliver unitholder value, a sustainable approach to the development of our long-life resource and a product – high-quality, sweet crude oil – that is essential to the global economy.

The past year reflected the largest expansion in our history, one that boosted Syncrude's production in 2007 to an average of 305,000 barrels per day. Volumes in 2007 were 18 percent higher than 2006 and exceeded our original budget estimate. And, looking ahead, there is still room to grow production to our current design capacity of 350,000 barrels per day. Beyond that, we have plans to expand to 500,000 barrels per day.

The increase in production in 2007 over 2006, combined with robust crude oil prices, resulted in impressive 2007 financial results. Cash from operating activities was up 21 percent over 2006, reaching \$1.4 billion or \$2.87 per Trust Unit. Net income in 2007 was negatively impacted by income trust taxation and totaled \$743 million, or \$1.55 per Trust Unit. In June 2007 the federal government enacted legislation to begin taxing most publicly traded income trusts in 2011, which required us to record a future income tax expense in 2007 even though the new tax does not take effect for a number of years. As future income tax is a non-cash item, it had no current impact on our cash from operating activities.

¹ TV/BIP measures the total volume of material (dirt, sand and bitumen) relative to the volume of bitumen in place.



Marcel Coutu
President and Chief Executive Officer

In 2007, significant additions also were made to Syncrude's resource base following evaluation of its leases using higher economic cut-off rates, otherwise referred to as TV/BIP¹ ratios. Syncrude will continue to better define the potential for new resource on its existing leases over the next few years. This work should extend Syncrude's resource life and may result in its owners reassessing expansion plans, exploring the potential of reaching productive capacity beyond the currently planned 500,000 barrels per day.



Production enhancement

The new Coker 8-3, more robust than our two original cokers (the primary units used to convert bitumen into synthetic crude oil) and vital to increasing our production capacity, was installed in 2006. Stabilizing production, not surprisingly, will take time and bringing newly constructed units into operation naturally comes with challenges. During 2007, Coker 8-3 experienced constrained throughput but also achieved periods of production at its design target rate. Some of the finer operating points of this unit's enhanced features are, therefore, still being mastered.

Syncrude's technological expertise and proven ability to unlock the potential of its assets give me confidence we will achieve Coker 8-3's potential.

Strengthening our depth of expertise

My confidence is rooted in the fact Syncrude has pioneered much of the technology used in the oil sands today. Its accomplishments have far surpassed what most could have imagined at the company's inception 30 years ago. Syncrude's superb record of achievement now is being even further enhanced by the Management Services Agreement (MSA). This long-term advisory arrangement enables Syncrude to benefit from the expertise, talent, and proprietary systems of top-tier operators Imperial Oil, which holds a 25 percent interest in Syncrude, and ExxonMobil.

Efficiently managing our capital structure

Canadian Oil Sands Trust is a highly competitive and productive investment. We currently pay an attractive cash distribution and offer defined production growth and a resource that is expected to be in high demand for a very long time indeed. Syncrude offers an excellent low-risk platform for oil sands expansion through high-quality leases, solid operating cash flows and a demonstrated ability to execute large capital projects. We therefore will look to enhance our ownership position in the Syncrude joint venture if the right opportunity arises. We also are looking, under the right conditions, to supplement Syncrude's growth profile through acquisitions of other oil sands-related assets.

We have set a financial plan that supports our growth objective. We intend to move from a low net debt of just under \$1 billion at the end of 2007 to \$1.6 billion by the end of 2010. This is a prudent target that conserves tax pools during the transition period prior to trust taxation while still maintaining a strong balance sheet. A strong balance sheet is a priority for us as it underpins our investment grade credit rating, provides capacity to finance growth and supports our continuing plan to provide full exposure to crude oil prices by not hedging.

The combined talent and experience of Syncrude, Imperial Oil and ExxonMobil create a powerful force that should maximize our investment in the Stage 3 expansion and help us achieve our goals.

Capital plans

The next identified growth opportunity is the Syncrude Stage 3 debottleneck; an associated ramp up in capital spending is expected to occur around 2010. Unless we identify another growth opportunity, we plan to efficiently manage our capital structure by distributing cash to our investors, an approach that allows us to take full advantage of our trust structure until trust taxation takes effect in 2011. Over the past 12 months, we have more than doubled our cash payments with a distribution of \$0.75 per Trust Unit paid in the first quarter of 2008.

As you would expect, we must review our distribution objectives in light of trust taxation, our expected conversion to a corporate structure and our capital spending requirements. In doing so, we will continue to work towards creating longer-term value for our investors.

2008 outlook and the horizon

In 2008 Syncrude production is expected to average 315,000 barrels per day (about 116,000 barrels per day net to the Trust), reflecting a demanding maintenance program that includes turnarounds on two of our three cokers.

All of our volumes in 2008 are expected to be upgraded to the higher quality level we introduced late in 2007, which should assist North American refiners in meeting more stringent environmental requirements. We believe demand for our new blend will grow and that a better quality product and enhanced reliability will benefit both our revenues and cost structure.



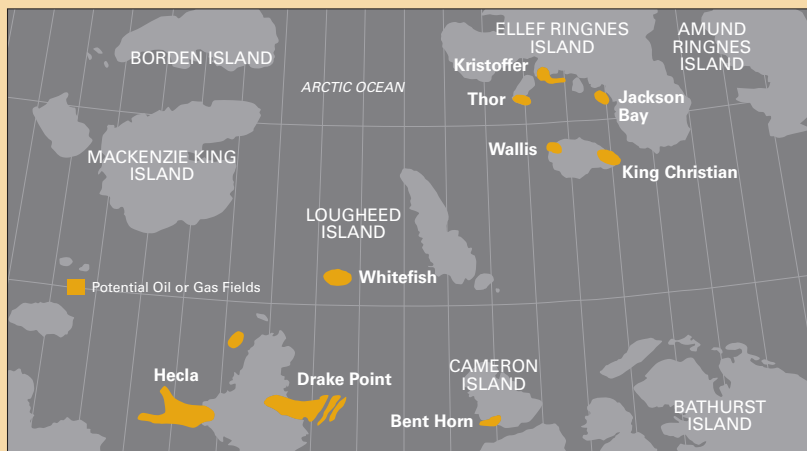
Going forward, we anticipate production growth in excess of 10 percent over 2008 levels by attaining the plant's existing design capacity. Costs to operate the facility are largely fixed so higher volumes reduce per barrel costs. We are, however, seeing inflationary pressures on construction materials and labour costs. We are expecting operating costs for 2008 to average \$26.83 per barrel. Our focus on reliable operations has the greatest potential to offset inflationary pressures and a specific effort is underway via the MSA to reduce downtime, improve the plant's utilization rates and increase volume throughput.

We cannot yet assess the impact of the proposed new Crown royalty regime, which takes effect in 2009. Syncrude has a contract with the Alberta government that codifies current royalty terms to 2015 and we are negotiating with the province regarding its desire to move Syncrude more quickly to the new royalty structure.

Canadian Oil Sands holds significant natural gas resource in Canada's arctic islands.

This past year we also sold the remaining conventional assets acquired with our 2006 purchase of Canada Southern Petroleum Ltd. We now hold extensive natural gas resources concentrated primarily in the Drake and Hecla fields onshore and offshore Melville Island in the Canadian Arctic. The majority of our legacy interests in these fields are "carried" by our partners, meaning there is limited requirement for us to fund development costs and there are no lease rental payments or associated interest costs. We are very pleased to have secured this partial hedge against our future natural gas requirements for the Syncrude operations. Furthermore, I believe this to be another sizeable, strategic, and long-term energy asset that has tremendous upside potential.

This resource is not currently in production and there are no development plans at this time or in the foreseeable future.





Syncrude has always been committed to meeting all of its regulatory obligations for environmental management and to achieving ever improving levels of performance. In the last half of 2007, we included \$0.19 per barrel in our operating costs to recognize the expected cost of compliance with greenhouse gas legislation introduced by the Alberta government. The federal government also is expected to introduce legislation to curb greenhouse gas emissions. We expect to invest an additional \$2 to \$5 per barrel in sustaining capital costs over the next several years for environmental and infrastructure projects. One such project is the Syncrude Emissions Reduction project, which is expected to result in a 60 percent reduction in total sulphur dioxide emissions. Syncrude also is pursuing tailings system projects aimed at improving technology used to separate water from sand and clay. The intention is to enable water to be recycled back to the operation more quickly and to allow solids to be incorporated into the final reclamation landscapes sooner.

Using its foundation in technological and intellectual innovation, Syncrude will continue to develop better and more sustainable practices.

A leader in corporate social responsibility

We and Syncrude recognize that our operations, while vital to Alberta and Canada's economic and social fabric, impact both the environment and the community. Our water usage and land reclamation performance, already the best in the industry, is a focus of continued improvement. We also are working to reduce our carbon dioxide emissions intensity through improved energy efficiency and reliability.

Syncrude has a production capacity to provide roughly 15 percent of Canada's crude oil needs, injects about \$4 billion annually into the economy, and donates about \$4 million each year to the communities it serves.

Likewise, Canadian Oil Sands is committed to supporting communities, focusing on charitable programs for society's less fortunate. Overall, we contribute about \$2.2 million annually, including our share of Syncrude's donations.

A solid investment

Canadian Oil Sands is firmly positioned to continue delivering strong returns. Crude oil prices remain robust and reflect the underlying global fundamentals of growing demand against limited supply.

In 2007 our annual total return² was 25 percent and the future continues to look promising:

- **We have a defined growth plan** The Stage 3 debottleneck is expected to add 30,000 to 50,000 barrels per day by 2012 with the most complicated and expensive component – coking capacity – already constructed. Stage 4 should raise Syncrude's capacity to about 500,000 barrels per day in the latter half of the next decade.

² Total return refers to Trust Unit price appreciation plus reinvestment of all distributions paid.

■ **We are moving forward** A Growth Development Planning and Major Projects Committee chaired by Canadian Oil Sands, has been established and Syncrude's owners have committed capital for the preliminary design work on our expansion projects. A major challenge – one we believe we are uniquely equipped to meet – in constructing oil sands projects is sourcing the necessary technical capability. ExxonMobil's world-leading talent, to which we now have access, should meet this challenge and provide Syncrude with a significant advantage through its engineering, procurement and construction leadership.

■ **We are ahead of the game** Our advantage is better economics and lower risk through well-established mining technologies with higher bitumen recovery rates than in-situ operations. All of Syncrude's leases can be mined and have deposits that contain among the best bitumen ore grades in the entire Athabasca oil sands deposit.

Credit where credit is due

Canadian Oil Sands is bullish about the future and proud of the past year's accomplishments. Operating and lining out a major expansion to a 24-hour, 365-day oil sands facility is possible only through the dedication of the Syncrude employees, contractors and the staff provided by Imperial Oil and ExxonMobil. Their skill, determination and innovation have given us a track record of achievement and remain the source of our optimism when it comes to our future and that of our investors.

Profound thanks go to Canadian Oil Sands' employees for their efforts and our Board of Directors for their dedicated stewardship of this remarkable asset. Last year we further strengthened our board's financial expertise with the addition of Mr. Ian Bourne. Ms. Susan Evans, who was one of the original board members of Athabasca Oil Sands Trust, the predecessor of today's trust, has decided not to stand for re-election. I wish to express my deep appreciation for her commitment to management and the board over the past 12 years; we will miss her contribution to the governance of Canadian Oil Sands.



Together, our team and the talent and prudence it represents will ensure Canadian Oil Sands will not only retain but strengthen its reputation as the definitive oil sands investment.

We have a strong growth horizon combined with the near-term benefits of reaching design capacity and improving plant reliability. Canadian Oil Sands offers robust cash distributions and is indeed a uniquely attractive energy investment not only for today, but for tomorrow.

Sincerely,

A handwritten signature in black ink, appearing to read 'Marcel Coutu'. The signature is stylized and fluid.

Marcel Coutu
President and Chief Executive Officer
February 28, 2008