
TERMS OF REFERENCE OF THE AUDIT COMMITTEE

I. PURPOSE

- A. The primary function of the Audit Committee (the "Committee") is to assist the Board of Directors of Canadian Oil Sands Limited ("COSL") in fulfilling its oversight responsibilities by reviewing:
- i) the financial information that will be provided to the unitholders of Canadian Oil Sands Trust (the "Trust") and the public;
 - ii) the systems of internal controls that management and the Board have established, including monitoring the integrity of the controls regarding financial reporting and accounting compliance; and
 - iii) all audit processes.
- B. Primary responsibility for the financial reporting, information systems, risk management and internal controls of the Trust, COSL and the other subsidiaries of the Trust is vested in management and is overseen by the Board.
- C. The Committee reviews and receives the reports of the internal auditor as part of the internal control oversight of the Trust, COSL and the other subsidiaries of the Trust.
- D. The Committee shall monitor the independence and performance of the external auditors and of the internal auditors of the Trust, COSL and the other subsidiaries of the Trust.

II. CONSTITUTION, COMPOSITION AND DEFINITIONS

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

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- B. The Committee shall ensure that management advises the external auditors of the names of the Committee members and provides notice of and invites, where appropriate, the external auditors to attend meetings of the Committee. The Committee shall ensure that the external auditors are heard at those meetings on matters relating to the auditor's duties.
- C. The Committee shall meet with the external auditors at least quarterly, and otherwise as it deems appropriate, to consider any matter that the Committee or the external auditors determine should be brought to the attention of the Board or unitholders.
- D. The Committee shall meet at least four times each year. The Chairman may call additional meetings as required. In addition, a meeting may be called by the non-executive Chairman of the Board, the President & Chief Executive Officer, any member of the Committee or by the external auditors.
- E. The Committee shall have the right to determine who shall and who shall not be present at any time during a Committee meeting. The President & Chief Executive Officer and the Chief Financial Officer of COSL are expected to be available to attend the Committee's meetings or portions thereof.
- F. The Board shall appoint members to the Committee. Where a vacancy occurs at any time in the membership of the Committee, the Board may fill it. A majority of the Board may remove any member of the Committee at any time. If a member of the Committee ceases to be a Board member, then such individual shall automatically cease to be a member of the Committee.
- G. The Committee shall be given access to senior management of COSL and all documents as required to fulfill its responsibilities and shall be provided with the resources necessary to carry out its responsibilities.
- H. The Committee shall have the right to:
 - i) engage independent counsel and other advisors as it determines necessary to carry out its duties;
 - ii) to establish and pay the compensation for any advisors employed by the Committee; and
 - iii) to communicate directly with the external auditors and, if applicable, internal auditors.

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- I. The Committee provides open venues of communication among management, employees, external auditors and the Board.
- J. The non-executive Chairman of the Board shall be a non-voting member of the Committee unless he is a member of the Committee in which case he shall have the same voting rights as any other member of the Committee.
- K. The secretary to the Committee shall be either the Corporate Secretary or his/her delegate.
- L. Committee meetings may be held in person, by video conference, by means of telephone or by a combination of the foregoing.
- M. Notice of the time and place of each meeting may be given orally, or in writing (including by electronic means) or by facsimile to each member of the Committee at least 48 hours prior to the time fixed for such meeting. Notice shall also be given to the external auditors. Any member and the external auditors may, in any manner, waive notice of the meeting. Attendance of a member or the external auditors at a meeting shall constitute waiver of notice of the meeting except where a member or the external auditors attend the meeting for the express purpose of objecting to the transaction of any business on the grounds that the meeting was not lawfully called.
- N. A majority of members, present in person or by videoconference, by means of telephone or combination thereof, shall constitute a quorum.
- O. The Chair of the Audit Committee shall be appointed by the Board. The Chair shall preside as chair at each Committee meeting, lead Committee discussion on meeting agenda items and report to the Board, on behalf of the Committee, with respect to the proceedings of each Committee meeting. In the event that either the Chair or the Secretary is absent from any meeting, the members present shall designate any Director present to act as Chair and shall designate any Director, officer or employee of the Company to act as Secretary.

III. DUTIES AND RESPONSIBILITIES

Subject to the powers and duties of the Board and without limiting the members' duties as Board members, the Committee will perform the following duties:

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A. Financial Statements and Other Financial Information

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

- i) reviewing and recommending approval of the annual financial statements and management's discussion and analysis with regard to the Trust, COSL and other subsidiaries of the Trust, as applicable, and report to the Board before the statements are approved by the Board;
- ii) reviewing and approving the quarterly unaudited financial statements and management's discussion and analysis with regard to the Trust, COSL, and other subsidiaries of the Trust, as applicable, and approving the release of such financial statements and interim management's discussion and analysis to the public together with the press releases thereon;
- iii) reviewing and authorizing for release any earnings release or guidance document to the public;
- iv) reviewing and recommending to the Board for approval, the financial content of the annual report and of any material reports required by government or regulatory authorities;
- v) reviewing and recommending for approval by the Board the Annual Information Form of the Trust and COSL;
- vi) reviewing and recommending to the Board for approval the financial content in any prospectus or offering memorandum;
- vii) reviewing and discussing the appropriateness of accounting policies and financial reporting practices used by the Trust, COSL and/or other subsidiaries of the Trust;
- viii) reviewing and discussing any significant proposed changes in financial reporting and accounting policies and practices to be adopted by the Trust, COSL and/or other subsidiaries of the Trust;
- ix) reviewing and discussing any new or pending developments in accounting and reporting standards that may materially affect the Trust, COSL and/or other subsidiaries of the Trust;

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- x) reviewing and assessing the appropriateness of management's key estimates and judgments that may be material to financial reporting;
- xi) reviewing and discussing with the internal auditors any matters which affect or may reasonably be expected to affect the accuracy or robustness of reporting as such relate to the financial statements or other financial disclosure matters;
- xii) reviewing and discussing with management the use of "pro forma" or non-GAAP financial information and earnings guidance contained in news releases, any other public disclosure or any filings with the securities regulators and considering whether the information is consistent with the information contained in the financial statements of the Trust or COSL; and
- xiii) reviewing and reassessing annually that adequate procedures are in place to review any other corporate disclosure derived or extracted from financial statements.

B. Financial Risk Management, Internal Control and Disclosure Control Systems

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

- i) review, at least annually, the financial risk management policies and practices of the Trust, COSL and other subsidiaries of the Trust as such relate to financial matters and accounting, it being recognized that the Board is responsible for the review of the overall risk management affecting the Trust, COSL and other subsidiaries of the Trust;
- ii) obtain reasonable assurance from management or external sources as deemed appropriate that the disclosure control systems are reliable and the systems of disclosure and internal controls are properly designed and effectively implemented through discussions with and reports from management, the internal auditor, if such position exists, and the external auditor, as deemed appropriate by the Committee;

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- iii) review management steps to implement and maintain appropriate internal control procedures including a review of policies, including without limitation, internal controls over marketing;
- iv) monitor compliance with statutory and regulatory obligations;
- v) establish procedures for the receipt, retention and treatment of complaints received by the Trust or COSL regarding accounting, internal accounting controls or auditing matters and establish procedures so that the confidential, anonymous submission by employees regarding questionable accounting matters are handled appropriately;
- vi) review the report from the Risk Management Committee regarding any credit risk or violations of applicable marketing policies as part of the Audit Committee's oversight of financial risk management for the Trust, COSL and any other subsidiary of the Trust; and
- vii) review management's monitoring of compliance with COSL's Code of Business Conduct.

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

C. External Audit

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

- i) review, assess the performance and recommend to the Board, for unitholder approval, the appointment, retention and compensation of the external auditors;
- ii) review the annual external audit plan;
- iii) meet with the external auditors to discuss quarterly and annual financial statements of the Trust, COSL, and other subsidiaries of the Trust, as applicable, and the auditors' reports thereon;

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- iv) review and report to the Board with respect to the planning, conduct and reporting of the annual audit, including but not limited to:
 - a) any difficulties encountered, or restriction imposed by management, during the annual audit;
 - b) critical accounting policies and estimates and alternatives to such policies and estimates;
 - c) any significant accounting or financial reporting issue;
 - d) if appropriate, the auditors' evaluation of the system of internal controls, procedures and documentation for the Trust, COSL and other subsidiaries of the Trust;
 - e) the post audit or management letter containing any findings or recommendation of the external auditors, including management's response thereto and the subsequent follow-up to any identified disclosure or internal control weaknesses; and
 - f) any other material matters the external auditors bring to the Committee's attention;
- v) review and pre-approve the non-audit services to be provided by the external auditors' firm or its affiliates (including estimated fees), and consider the impact on the independence of the external audit; where circumstances warrant, this pre-approval may be delegated to the Chair of the Audit Committee;
- vi) meet periodically, and at least quarterly, with the external auditors without management present;
- vii) meet periodically, and at least quarterly, with management, without the external auditors present;
- viii) review any decision by COSL to hire employees or former employees of the Trust's or COSL's current or former external auditors; and
- ix) discuss and review with the external auditor, all relationships such auditor has with the Trust and COSL as part of the assessment of the independence of the external auditor, as well as the external

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auditor's qualification and performance and the results of any internal reviews of the external audit firm as regards to any findings of inadequacies or concerns raised by external governance or regulating bodies.

D. Internal Audit

- i) review the internal audit functions including:
 - (A) the purpose, authority and organizational reporting lines;
 - (B) the annual audit plan, budget and staffing thereof; and
 - (C) the results of the quarterly reporting memos and of the semi-annual and annual internal audit reports; and
- ii) review, with the Chief Financial Officer, the Controller and others, as appropriate, the internal system of audit controls and the results of internal audits and consider the findings and the appropriateness of follow-up plans of the internal auditor.

E. Tax

- i) review and approve any material changes to the corporate structure related to tax planning as proposed by management for the Trust and its subsidiaries; and
- ii) review all material tax issues.

F. Other

- i) review material litigation as such impacts on financial reporting;
- ii) review policies and procedures for the review and approval of directors' and officers' expenses and perquisites, including the use of corporate assets, and consider the results of any review of these areas by an internal audit function, if available, or by the external auditors or a third party consultant, as the Committee deems applicable;
- iii) review and approve a summary of the Committee's composition and responsibilities as well as summary of any audit, audit-related and other services by the external auditors for inclusion in the public disclosure documentation of the Trust and COSL, including

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without limitation, any such disclosure contained in a management proxy circular;

- iv) review any related party transactions between the Trust or any subsidiary of the Trust, including COSL and the directors and officers of COSL;
- v) review any legal and regulatory matters that may have a material impact on the interim or annual financial statements that are brought to the attention of any member of the Committee or the Board;
- vi) conduct or authorize investigation into any matters within the Committee's scope of responsibilities. The Committee shall be empowered to retain independent counsel, accountants or others to assist it in the conduct of any investigation;
- vii) approve the appointment, re-assignment or removal of the Chief Financial Officer of the Corporation, subject to the recommendation of the Corporate Governance and Compensation Committee and the final approval of the Board;
- viii) approve the appointment, re-assignment or removal of the internal auditor, if any exists, of the Corporation, subject to the recommendation of the Corporate Governance and Compensation Committee and the final approval of the Board; and
- ix) the Committee shall have the authority to direct and to supervise the investigation into any matter brought to its attention within the scope of its duties. It shall establish procedures for the receipt, retention and treatment of:
 - (A) Complaints COSL may receive regarding accounting, internal accounting controls, or auditing matters; and
 - (B) Confidential, anonymous submissions from COSL employees expressing concern regarding questionable accounting or auditing matters.

IV. ACCOUNTABILITY

The Committee shall report its discussions to the Board by either distributing the minutes of its meetings or a written summary of such discussions or by oral report

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at the next Board meeting. Any sensitive materials shall be kept by the Corporate Secretary and/or the Chairman of the Committee.

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

V. REVIEW

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