consolidated statements of income and comprehensive income

For the years ended December 31 ($ millions, except per Trust Unit amounts)	2007	2006
Revenues	$ 3,633	$ 2,692
Crude oil purchases and transportation expense	(383)	(260)
	3,250	2,432
Expenses		
Operating	1,034	907
Non-production	63	70
Crown royalties *(Note 21)*	485	232
Administration	20	17
Insurance	8	6
Interest, net *(Note 17)*	85	98
Depreciation, depletion and accretion *(Note 8)*	351	255
Foreign exchange gain	(117)	(5)
	1,929	1,580
Earnings before taxes from continuing operations	1,321	852
Future income tax expense and other *(Note 14)*	579	17
Net income from continuing operations	742	835
Income (loss) from discontinued operations *(Note 6)*	1	(1)
Net income	743	834
Other comprehensive loss, net of income taxes		
Reclassification of derivative gains to net income *(Note 3)*	(6)	–
Comprehensive income	$ 737	$ 834
Weighted-average Trust Units *(millions)*	479	466
Trust Units, end of year *(millions)*	479	471
Net income per Trust Unit[1]:		
Basic *(Note 15(c))*	$ 1.55	$ 1.79
Diluted *(Note 15(c))*	$ 1.54	$ 1.78

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 statements of unitholders' equity

For the years ended December 31 ($ millions)	2007	2006
Retained earnings		
Balance, beginning of year, as previously reported	$ 1,692	$ 1,370
Transition adjustment on adoption of Financial Instruments standards *(Note 3)*	(1)	–
Balance, beginning of year, adjusted	1,691	1,370
Net income	743	834
Unitholder distributions *(Note 18)*	(791)	(512)
Balance, end of year	1,643	1,692
Accumulated other comprehensive income		
Balance, beginning of year	–	–
Transition adjustment on adoption of Financial Instruments standards, net of income taxes *(Note 3)*	30	–
Other comprehensive loss, net of income taxes	(6)	–
Balance, end of year	24	–
Unitholders' capital		
Balance, beginning of year	2,260	2,010
Issuance of Trust Units *(Note 15(a))*	240	250
Balance, end of year	2,500	2,260
Contributed surplus		
Balance, beginning of year	4	3
Stock-based compensation *(Note 16(a))*	1	1
Balance, end of year	5	4
Total Unitholders' equity	$ 4,172	$ 3,956

See Notes to Consolidated Financial Statements.

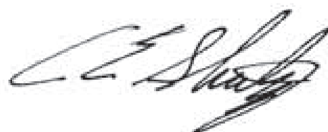
consolidated balance sheets

As at December 31 ($ millions)	2007	2006
Assets		
Current assets		
Cash and cash equivalents	**$ 268**	$ 353
Accounts receivable	**379**	244
Inventories *(Note 7)*	**102**	84
Prepaid expenses	**6**	7
	755	688
Property, plant and equipment, net *(Note 8)*	**6,427**	5,739
Other assets		
Goodwill *(Note 6)*	**52**	52
Assets held for sale *(Note 6)*	**–**	6
Reclamation trust *(Note 13)*	**37**	30
Deferred financing charges, net and other *(Note 3)*	**–**	17
	89	105
	$ 7,271	$ 6,532
Liabilities and Unitholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities *(Note 9)*	**$ 289**	$ 304
Current portion of employee future benefits *(Note 10)*	**16**	11
	305	315
Employee future benefits and other liabilities *(Note 10)*	**128**	100
Long-term debt *(Note 12)*	**1,218**	1,644
Asset retirement obligation *(Note 13)*	**226**	173
Deferred currency hedging gains *(Note 3)*	**–**	35
Future income taxes *(Note 14)*	**1,222**	309
	3,099	2,576
Unitholders' equity *(Note 15)*	**4,172**	3,956
	$ 7,271	$ 6,532

Commitments, Contingencies, and Guarantees *(Notes 22, 23 and 24, respectively)*

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)	2007	2006
Cash from (used in) operating activities		
Net income	$ 743	$ 834
Items not requiring an outlay of cash		
Depreciation, depletion and accretion	351	255
Foreign exchange gain on long-term debt	(153)	(1)
Future income tax expense	578	18
Other	(3)	4
Net change in deferred items	26	10
Funds from operations	1,542	1,120
Change in non-cash working capital *(Note 25(a))*	(165)	22
Cash from operating activities	1,377	1,142
Cash from (used in) financing activities		
Repayment of medium term notes and Senior Notes *(Note 12)*	(272)	–
Net drawdown (repayment) of bank credit facilities *(Note 11)*	16	(92)
Unitholder distributions *(Note 18)*	(791)	(512)
Issuance of Trust Units *(Note 15(a))*	3	250
Cash used in financing activities	(1,044)	(354)
Cash from (used in) investing activities		
Capital expenditures	(183)	(300)
Acquisition of additional Syncrude working interest *(Note 5)*	(231)	–
Acquisition of Canadian Arctic Gas Ltd. *(Note 6)*	–	(199)
Disposition of properties *(Note 6)*	4	28
Reclamation trust funding	(7)	(5)
Change in non-cash working capital *(Note 25(a))*	(1)	(47)
Cash used in investing activities	(418)	(523)
Increase (decrease) in cash and cash equivalents	(85)	265
Cash and cash equivalents, beginning of year	353	88
Cash and cash equivalents, end of year	$ 268	$ 353
Cash and cash equivalents consist of:		
Cash	$ 4	$ 8
Short-term investments	264	345
	$ 268	$ 353

Supplementary Information *(Note 25(b))*

See Notes to Consolidated Financial Statements.

notes to consolidated financial statements

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

Note 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") that 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.

Following the acquisition of an additional 1.25 percent interest on January 2, 2007, the Trust indirectly owned a 36.74 percent interest ("Working Interest") during 2007 (2006 – 35.49 percent) in the Syncrude Joint Venture ("Syncrude"). Syncrude is involved in the mining and upgrading of bitumen from oil sands in Northern Alberta and operated by Syncrude Canada Ltd. ("Syncrude Canada").

Note 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 Canadian Oil Sands' 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 and receivable. Substantially all operations of Canadian Oil Sands are carried out through the joint venture.

Cash and Cash Equivalents

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

Property, Plant and Equipment

Property, plant and equipment ("PP&E") 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 13). Overburden removal, turnaround costs, repairs and maintenance are expensed in the period incurred.

Oil sands assets are depreciated and depleted using the unit-of-production method based on estimated proved plus probable reserves. For purposes of the depreciation and depletion provision, capital costs include future development 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 and probable reserves, less operating expenses, Crown royalties, future development capital costs 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 fair value is determined on a discounted cash flow basis. The Trust performs this test at least annually and whenever there is an indication that asset impairment has potentially occurred.

The Arctic assets are recorded at cost and include the costs of acquiring the varying interests in natural gas licenses located in the Arctic Islands in Northern Canada. The Arctic assets are not 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 their carrying amount may not be recoverable. If it is determined that the net recoverable amount is less than the net carrying amount, a write-down to the fair value is taken and charged to earnings in the period.

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 in a business combination. 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 of the underlying assets that gave rise to the goodwill is less than the net carrying amount of such assets, a write-down to the fair value of goodwill 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 36.74 percent (2006 – 35.49 percent) 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. The discounted full amount of the liability is recorded upon initial land disturbance or when a reasonable estimate of the fair value of the reclamation expenditures can be determined. The fair value is determined by estimating the timing and amounts of the future reclamation expenditures, and discounting the expenditures using a credit-adjusted risk free rate applicable to the 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. Asset retirement costs are depreciated using the unit-of-production method. The obligation is accreted based on the Trust's credit-adjusted risk-free 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.

Revenue Recognition

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

Employee Future Benefits

Canadian Oil Sands accrues its proportionate share of obligations as a joint venture owner in respect of Syncrude Canada's employee benefit plans 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 percent of the greater of the benefit obligation and fair value of the plan assets is amortized over the EARSL (Note 10(a)).

Future Income Taxes

Canadian Oil Sands follows the liability method of accounting for income taxes. Under this method, future income taxes are calculated as the difference between the accounting and income tax basis of an asset or liability, referred to as temporary differences, tax effected using substantively enacted or 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.

Non-Monetary Transactions

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

Stock-based Compensation

Canadian Oil Sands recognizes stock-based compensation expense in its Consolidated Statement of Income and Comprehensive Income for all Unit options ("options") granted 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 Canadian Oil Sands officers, other select employees and consultants under Canadian Oil Sands' 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 values of the vested phantom units and restricted units, which are 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

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates in effect at the end of the period, with the resulting gain or loss recorded in the Consolidated Statement of Income and Comprehensive Income. Non-monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at historical exchange rates. Revenues and expenses are translated into Canadian dollars at average exchange rates. Translation gains and losses on U.S. dollar denominated long-term debt are recorded as unrealized and excluded from cash from operating activities until repayment of the debt obligations, at which time, a realized foreign exchange gain or loss is recorded. All other translation gains and losses, which relate to the translation of foreign currency denominated cash, accounts receivable and accounts payable and accrued liabilities, are classified as realized.

Net Income per Trust 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 to make estimates and assumptions for many financial statement items based on its 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, new mine plans and future price and cost estimates, which by their nature, are subjective and contain measurement uncertainty. Based on the December 31, 2007 independent reserve report and expected 2008 Syncrude production, of which actual 2008 production may vary based on Syncrude's operational performance, Canadian Oil Sands anticipates its 2008 depreciation and depletion ("D&D") expense to increase to approximately $470 million, or $11 per barrel, from $340 million, or $8.31 per barrel in 2007, mainly due to higher reserve report estimates of future development costs. Canadian Oil Sands also anticipates the upward cost trend to continue in 2008 regarding its asset retirement obligation costs, reflecting continuing changes in government regulations and inflationary cost pressures in the Fort McMurray area; however, the associated impact on the Trust's asset retirement obligation cannot be reasonably estimated at this time.

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.

Note 3. Changes in Accounting Policies

a) Financial Instruments

Effective January 1, 2007 Canadian Oil Sands adopted the requirements of the Canadian Institute of Chartered Accountants ("CICA") related to the new financial instruments accounting framework, which encompasses the following new CICA Handbook sections: 3855 *Financial Instruments – Recognition and Measurement*, and 1530 *Comprehensive Income*. The CICA Handbook section 3865 *Hedges* was effective January 1, 2007, however, Canadian Oil Sands elected not to apply hedge accounting on existing financial instruments on a go-forward basis, and, therefore, only applied the transitional provisions of this Handbook section. The CICA also issued Handbook sections 3862 *Financial Instruments – Disclosures* and 3863 *Financial Instruments – Presentation*, which are effective for the Trust beginning January 1, 2008, and encouraged early adoption. Accordingly, the provisions have been adopted early and included in these financial statements.

These new Handbook sections provide comprehensive requirements for the recognition, measurement and disclosure of financial instruments, and introduce a new component of equity referred to as accumulated other comprehensive income ("AOCI"). In accordance with the transitional provisions of all of the new sections, the comparative consolidated financial statements have not been restated.

Under these new standards, all financial instruments are recognized on the Trust's Consolidated Balance Sheet. Held-for-trading financial instruments are measured at fair value with unrealized gains and losses reported in net income. Available-for-sale financial instruments are measured at fair value with unrealized gains and losses reported in other comprehensive income, which is defined below. Other financial liabilities and loans and receivables are measured at amortized cost using the effective interest rate method. Transaction costs are added to the amount of the associated financial instrument and amortized accordingly using the effective interest rate method.

Several adjustments to the Trust's consolidated financial statements were required upon transition to the new financial instruments framework. These changes included the following:

Deferred Currency Hedging Gains

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 gains for adjustments to other existing currency contracts. These gains were deferred and as at December 31, 2006, the remaining cumulative deferral of the unrecognized gains was $35 million. Prior to the adoption of the new standards, the remaining deferral was to be recognized as revenue over the period 2007 to 2016 as this is when the initial hedging contracts would have expired had they not been unwound.

On transition, the deferred currency hedging gains of $35 million were reclassified to opening AOCI. The related future income tax asset of $10 million was reclassified from Canadian Oil Sands' future income tax liability to AOCI. The deferred gains included in AOCI are amortized on a straight-line basis into net income and recorded as currency hedging gains in the Trust's revenues until 2016, with a corresponding decrease to other comprehensive income, net of future income taxes.

Long-term Debt and Deferred Financing Charges

Prior to the adoption of the new standards, the Trust's long-term debt was recorded at cost. The related transaction costs were included in "Deferred financing charges, net and other" on the Trust's Consolidated Balance Sheet, and recognized in net income over the life of the debt.

Under the transitional provisions of Handbook section 3855 *Financial Instruments – Recognition and Measurement*, the Trust's long-term debt is now recorded at amortized cost using the effective interest rate method. The related financing charges have been included in the cost of the long-term debt. As a result of these changes, "Deferred financing charges, net and other" of $16 million, which was previously recorded as an asset of the Trust, was reclassified to "Long-term debt" on the Consolidated Balance Sheet, and $1 million was recorded as a decrease to January 1, 2007 retained earnings.

Determination of Fair Value

The fair value of the Trust's long-term debt is determined based on market price indications. In fair valuing its derivatives, the Trust utilizes a valuation technique using available market prices.

Comprehensive Income

The Consolidated Statement of Income and Comprehensive Income includes a new line item for comprehensive income that includes both net income and other comprehensive income ("OCI"). OCI includes recognition of unrealized gains and losses on derivatives and realized hedging gains that were previously deferred, net of the related future income tax on those items.

b) Capital Disclosures

The CICA issued an additional new accounting standard, Section 1535 *Capital Disclosures* that requires both qualitative and quantitative disclosures to provide users of financial statements with information to evaluate the entity's objectives, policies and processes for managing capital. This new section is effective for the Trust beginning January 1, 2008 but earlier adoption is encouraged. Accordingly, the provisions have been adopted early and included in these financial statements.

c) Accounting Changes

Effective January 1, 2007 Canadian Oil Sands adopted the CICA's revisions to Handbook Section 1506 *Accounting Changes*. Pursuant to the revisions, in 2007 the Trust provided disclosure of the expected effects on its financial statements of relevant future new sources of GAAP that have been issued by the CICA but are not yet effective or applied by the Trust. The other revisions to Section 1506 are intended to enhance the information provided to financial statement users regarding effects of changes in accounting policies, changes in estimates and errors. The Trust did not have any material changes in estimates or errors in 2007.

Note 4. Future Changes in Accounting Policies

In June 2007 the CICA issued a new accounting standard – Section 3031 *Inventories*, which replaces the existing standard for inventories, Section 3030. The main features of the new Section are as follows:

- Measurement of inventories at the lower of cost and net realizable value;
- Consistent use of either first-in, first-out or a weighted-average cost formula to measure cost; and
- Reversal of previous net realizable value write-downs when there is a subsequent increase to the value of inventories.

The new Section is effective for the Trust beginning January 1, 2008. Application of the new Section is not expected to have an impact on the financial statements.

Note 5. Acquisition of Additional Syncrude Working Interest

On January 2, 2007 a subsidiary of the Trust closed an acquisition with Talisman Energy Inc. ("Talisman") to purchase an additional 1.25 percent indirect working interest in Syncrude for total consideration of $476 million ($468 million net of $8 million cash acquired), including acquisition-related costs of approximately $1 million. The transaction price was comprised of $238 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.

The acquisition has been accounted for as a purchase of assets in accordance with GAAP. The Trust has allocated the purchase price based on fair values to the assets and liabilities as follows:

Net Assets and Liabilities Assumed	
Property, plant and equipment	$ 668
Cash	8
Working capital	1
Employee future benefits and other liabilities	(8)
Asset retirement obligation	(6)
Future income taxes	(187)
	$ 476
Consideration	
Cash	$ 238
Issuance of Trust Units	237
Acquisition costs	1
	$ 476

The additional 1.25 percent working interest Canadian Oil Sands acquired was held in a partnership owned by Talisman and a subsidiary of the Trust. Immediately following Canadian Oil Sands' acquisition of Talisman's interest in the partnership, the partnership was dissolved. The dissolution resulted in an adjustment that increased Canadian Oil Sands' future income tax liability by $140 million and correspondingly increased its property, plant and equipment on the Consolidated Balance Sheet. This increase was accounted for prospectively.

Note 6. Acquisition of Canadian Arctic Gas Ltd. and Disposition of Certain Related Properties

In 2006 Canadian Oil Sands acquired the common shares of Canada Southern Petroleum Ltd. ("Canada Southern") through multiple share purchase transactions for US$13.10 per share, for total consideration of approximately C$223 million ($199 million net of $24 million cash acquired), including acquisition-related costs of approximately $2 million. Concurrent with the final purchase of shares in October 2006, 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 on the Trust's 2006 Consolidated Balance Sheet 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
Acquisition costs	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 and 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.*

Canadian Oil Sands disposed of the conventional oil and gas exploration and development properties in 2006 and 2007. The sales did not result in a material gain or loss in either year as the carrying values approximated the consideration received. These properties did not generate material revenue or pre-tax earnings in the periods that Canadian Oil Sands owned them prior to disposal, as reflected in "Income (loss) from discontinued operations" on the Consolidated Statement of Income and Comprehensive Income.

Canadian Oil Sands continues to hold the Arctic assets that were acquired with the purchase of Canadian Arctic.

Note 7. Inventories

	2007	2006
Materials and supplies	$ 69	$ 64
Product and linefill	33	20
	$ 102	$ 84

Note 8. Property, Plant and Equipment, Net

December 31, 2007	Cost	Accumulated Depreciation and Depletion	Net Book Value
Oil sands assets	**$ 7,662**	**$ 1,400**	**$ 6,262**
Arctic assets	**165**	**–**	**165**
	$ 7,827	**$ 1,400**	**$ 6,427**

December 31, 2006			
Oil sands assets	$ 6,633	$ 1,059	$ 5,574
Arctic assets	165	–	165
	$ 6,798	$ 1,059	$ 5,739

The net book value of the Arctic assets 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:

	2007	2006
Depreciation and depletion expense	**$ 340**	$ 246
Accretion expense	**11**	9
	$ 351	$ 255

Note 9. Accounts Payable and Accrued Liabilities

	2007	2006
Due to Syncrude Joint Venture/Syncrude Canada Ltd.[1]	**$ 225**	$ 241
Accrued liabilities	**42**	33
Interest payable	**22**	30
	$ 289	$ 304

[1] *Typically includes commercial trade payables and Crown royalties payable.*

Note 10. Employee Future Benefits and Other Liabilities

	2007	2006
Employee future benefits *(a)*	**$ 113**	$ 108
Accrued variable compensation and other *(b)*	**56**	62
	169	170
Less current portion comprised of:		
Employee future benefits	**(16)**	(11)
Accrued variable compensation and other (included in accounts payable and accrued liabilities)	**(25)**	(59)
	$ 128	$ 100

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 ("OPEB") plans covering most of its employees. Other post-employment benefits include certain health care and life insurance benefits for retirees, their beneficiaries and covered dependants. The OPEB plan is not funded.

Defined Benefit Plan

Syncrude measures its accrued benefit obligation and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuation of the pension plans for funding purposes was completed in 2007 and was as of December 31, 2006. The next required valuation will be as of December 31, 2009.

Canadian Oil Sands' share of Syncrude Canada's defined benefit plan accrued liability, based on its 36.74 percent ownership at December 31, 2007 (2006 – 35.49 percent) 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	
	2007	2006	**2007**	2006	**2007**	2006
Accrued benefit obligation:						
Balance, beginning of year	**$ 533**	$ 498	**$ 39**	$ 37	**$ 572**	$ 535
Acquired [1]	**18**	–	**1**	–	**19**	–
Current service cost	**24**	21	**1**	1	**25**	22
Interest cost	**28**	25	**2**	2	**30**	27
Transferred in	**5**	5	**–**	–	**5**	5
Benefits paid	**(21)**	(16)	**(1)**	(1)	**(22)**	(17)
Actuarial loss (gain)	**(3)**	–	**8**	–	**5**	–
Balance, end of year	**$ 584**	$ 533	**$ 50**	$ 39	**$ 634**	$ 572
Fair value of plan assets:						
Actuarial fair value, beginning of year	**$ 339**	$ 287	**$ –**	$ –	**$ 339**	$ 287
Acquired [1]	**12**	–	**–**	–	**12**	–
Actual return on plan assets	**8**	41	**–**	–	**8**	41
Employer contributions	**30**	22	**–**	–	**30**	22
Contributions – transfers	**5**	5	**–**	–	**5**	5
Benefits paid	**(20)**	(16)	**–**	–	**(20)**	(16)
Actuarial fair value, end of year	**374**	339	**–**	–	**374**	339
Funded status, Plan deficit	**(210)**	(194)	**(50)**	(39)	**(260)**	(233)
Unamortized net actuarial loss [2]	**134**	120	**15**	6	**149**	126
Unamortized past service costs [2]	**–**	1	**(2)**	(2)	**(2)**	(1)
Accrued benefit liability	**$ (76)**	$ (73)	**$ (37)**	$ (35)	**$ (113)**	$ (108)

[1] *Canadian Oil Sands assumed the fair value of the accrued benefit obligation and plan assets related to the additional 1.25 percent working interest acquired on January 2, 2007.*

[2] *Amortized over the expected average remaining service lives of employees covered by the plan, which is generally 12 years.*

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

	Percentage of Plan Assets	
	2007	2006
Equity securities	**68**	70
Debt securities	**32**	30
	100	100

Elements of defined benefit costs recognized in the year:

	Pension Benefit Plan		Other Post-Employment Benefits		Total	
	2007	2006	**2007**	2006	**2007**	2006
Current service cost	**$ 24**	$ 21	**$ 1**	$ 1	**$ 25**	$ 22
Interest cost	**28**	25	**2**	2	**30**	27
Actual return on plan assets	**(8)**	(41)	**–**	–	**(8)**	(41)
Actuarial loss (gain)	**(3)**	–	**8**	–	**5**	–
Elements of employee future benefits costs before adjustments to recognize the long-term nature of employee future benefit costs	**$ 41**	$ 5	**$ 11**	$ 3	**$ 52**	$ 8
Adjustments to recognize the long-term nature of employee future benefit costs:						
Difference between expected return and actual return on plan assets	**(23)**	16	**–**	–	**(23)**	16
Difference between actuarial loss (gain) recognized for year and actual actuarial loss (gain) on accrued benefit obligation for year	**9**	8	**(8)**	–	**1**	8
	(14)	24	**(8)**	–	**(22)**	24
Defined benefit costs recognized in net income	**$ 27**	$ 29	**$ 3**	$ 3	**$ 30**	$ 32

Significant Assumptions

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

	Pension Benefit Plan		Other Post-Employment Benefits	
	2007	2006	**2007**	2006
Accrued benefit obligation as of December 31:				
Discount rate	**5.25%**	5.0%	**5.25%**	5.0%
Rate of compensation increase	**5.0%**	4.0%	**5.0%**	4.0%
Benefit costs for years ended December 31:				
Discount rate	**5.0%**	5.0%	**5.0%**	5.0%
Expected long-term rate of return on plan assets	**8.5%**	8.5%	**N/A**	N/A
Rate of compensation increase	**5.0%**	4.0%	**5.0%**	4.0%

For measurement purposes, a 10 percent annual rate of increase in the cost of supplemental health care benefits was assumed for 2007, 2008, and 2009 (2006 – nine percent), decreasing by 0.5 percent each year thereafter to a five percent ultimate rate in 2019. In addition, annual rate increases of three percent in Alberta health care premiums and four percent in dental rates were used in 2007 and 2006.

Sensitivity Analysis

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans under other post-employment benefits. A one percent increase in assumed health care cost trend rates would have increased the Trust's accrued benefit obligation by $6 million, and a similar decrease in rates would have decreased the Trust's obligation by $5 million. A one percent change in such rates would not have had a material impact on the Trust's current service and interest costs.

Defined Contribution Plans

Canadian Oil Sands' share of the total expense, based on its 36.74 percent (2006 – 35.49 percent) working interest for Syncrude Canada's defined contribution pension plans was approximately $2 million in each of 2007 and 2006.

Total Cash Payments

Canadian Oil Sands' share of Syncrude's total cash payments for employee future benefits for 2007, 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 OPEB plans and cash contributed to its defined contribution plans, was $34 million (2006 – $26 million), based on its 36.74 percent (2006 – 35.49 percent) ownership.

b) Accrued Variable Compensation and Other

Syncrude Canada has short-term and long-term incentive plans that are cash settled. These plans include Syncrude Canada's employee retention program (Note 22(d)) and stock-based compensation plans (Note 16(b)). Accrued variable compensation and other consists primarily of the long-term portion of these plans. The accrued obligations for these plans are measured at their estimated fair values.

Note 11. Bank Credit Facilities

Extendible revolving term facility *(a)*	$ 40
Line of credit *(b)*	45
Operating credit facility *(c)*	800
	$ 885

Each of the credit facilities of Canadian Oil Sands Limited ("COSL"), the operating subsidiary of the Trust, is unsecured. These credit agreements contain 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 60 percent, or 65 percent 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 24, 2008. 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 $45 million line of credit is a one-year revolving letter of credit facility. The amount of this facility was increased during 2007 to $45 million from $35 million. Letters of credit drawn on the facility mature April 30 each year and are automatically renewed, unless notification to cancel is provided by Canadian Oil Sands or the financial institution providing the facility at least 60 days prior to expiry. Letters of credit on this facility bear interest at a credit spread.

Letters of credit of approximately $61 million have been written against the extendible revolving term facility and line of credit, as disclosed in Note 24.

c) Operating Credit Facility

The $800 million operating credit facility is a five-year facility, expiring April 27, 2012. Amounts borrowed through this facility bear interest at a floating rate based on either prime interest rates or bankers' acceptances plus a credit spread, while any unused amounts are subject to standby fees.

As at December 31, 2007, a total of $16 million was drawn on this facility (2006 – $nil).

Note 12. Long-term Debt

	2007	2006
3.95% medium term notes due January 15, 2007 *(a)*	$ –	$ 175
Floating rate medium term notes due January 15, 2007 *(a)*	–	20
7.625% Senior Notes due May 15, 2007 *(b)*	–	81
5.75% medium term notes due April 9, 2008 *(c)*	**149**	150
5.55% medium term notes due June 29, 2009 *(d)*	**200**	200
4.8% Senior Notes due August 10, 2009 *(e)*	**246**	291
5.8% Senior Notes due August 15, 2013 *(f)*	**293**	350
7.9% Senior Notes due September 1, 2021 *(g)*	**243**	291
8.2% Senior Notes due April 1, 2027 *(h)*	**71**	86
Credit facilities drawn, excluding letters of credit *(Note 11)*	**16**	–
	$ 1,218	$ 1,644

In accordance with the CICA's new Handbook standards for financial instruments as adopted by Canadian Oil Sands on January 1, 2007, Canadian Oil Sands' long-term debt is recorded at amortized cost. Balances prior to January 1, 2007 have not been restated and therefore reflect historical cost.

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 that 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, 2007 the Trust repaid $175 million of 3.95% medium term notes and $20 million of floating rate medium term notes upon maturity, both of which were originally issued on January 15, 2004.

b) 7.625% Senior Notes

The Trust repaid US$70 million of 7.625% Senior Notes on May 15, 2007 upon maturity and realized a foreign exchange gain of $18 million.

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 55 percent.

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

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

2008	$ 166
2009	447
After five years	617
	$ 1,230

Canadian Oil Sands intends to refinance on a long-term basis the 5.75% medium term notes that are maturing in 2008. The Trust has $808 million of unutilized operating credit facilities at December 31, 2007 to draw on to refinance these obligations and $800 million of these facilities do not expire until April 27, 2012. In accordance with EIC-122 *Balance Sheet Classification of Callable Debt Obligations and Debt Obligations Expected to be Refinanced*, debt maturing in 2008 has not been reclassified to current liabilities.

Note 13. Asset Retirement Obligation and Reclamation Trust

	2007	2006
Asset retirement obligation, beginning of year	$ 173	$ 148
Acquired [1]	6	–
Liabilities settled	(1)	(2)
Accretion expense	11	9
Asset retirement obligation increases	37	18
Asset retirement obligation, end of year	$ 226	$ 173

[1] *Canadian Oil Sands assumed the fair value of the asset retirement obligation related to the additional 1.25 percent working interest acquired on January 2, 2007.*

Canadian Oil Sands and each of the other owners of Syncrude are liable for their share of ongoing environmental obligations related to the ultimate reclamation of the Syncrude Joint Venture properties 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 six percent in deriving the asset retirement obligation.

Syncrude's upgrader facilities have indeterminate useful lives. The fair values of the related asset retirement obligations therefore 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 $743 million in 2007 based on its 36.74 percent Syncrude ownership (2006 – $595 million, based on 35.49 percent ownership). In addition to a larger working interest in 2007, the increase in costs primarily reflects the Trust's share of increased cost estimates to comply with Syncrude's new Alberta Environmental Protection and Enhancement Act Approval. The new requirements resulted in higher cost estimates for soil salvage, soil placement thickness and soil layering. Discounting these incremental cash flows resulted in a $37 million increase in the asset retirement obligation at December 31, 2007.

The reclamation expenditures will be funded from Canadian Oil Sands' cash from operating activities and reclamation trust. Canadian Oil Sands paid $1 million in 2007 (2006 – $2 million) for its share of Syncrude's reclamation expenditures. In addition to this funding, Canadian Oil Sands deposits $0.1322 per barrel of production attributable to its 36.74 percent (2006 – 35.49 percent) working interest to a reclamation trust established for the purpose of funding the operating subsidiary's share of environmental and reclamation obligations. As at December 31, 2007, including interest earned on investments, the balance of the reclamation trust was $37 million.

In addition, the Trust has posted letters of credit with the Province of Alberta in the amount of $61 million (2006 – $49 million) to secure its pro rata share of the ultimate reclamation obligations of the Syncrude Joint Venture participants.

Note 14. Future Income Taxes

On June 12, 2007 *Bill C-52 Budget Implementation Act, 2007* was substantively enacted by the Canadian federal government, which contains legislation to tax publicly traded trusts in Canada. As a result, a new tax will be applied to distributions from Canadian public income trusts. The new tax is not expected to apply to the Trust until 2011 as a transition period applies to publicly traded trusts that existed prior to November 1, 2006. As a result of this substantive enactment of trust taxation, the Trust recorded an additional $701 million future income tax expense and corresponding future income tax liability in the second quarter of 2007. This future income tax provision represented the taxable temporary differences of the Trust, tax-effected at 31.5 percent, which was the originally enacted trust taxation rate applicable in 2011.

During 2007 the federal government substantively enacted various tax rate reductions which lowered the corporate tax rates for the years 2008 to 2012 and beyond. The corporate tax rates were reduced from 20.5 percent in 2008 to an ultimate rate of 15 percent in 2012 and future years. These federal rate reductions also reduce the taxation rate applicable to trusts from 31.5 percent to 29.5 percent starting in 2011 and to 28 percent in 2012 and beyond. Canadian Oil Sands applied these rate reductions to its net future income tax liabilities in 2007, resulting in a total future income tax recovery of approximately $193 million.

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

	2007	2006
Earnings before taxes	**$ 1,322**	$ 851
Statutory rates		
Federal	**31.00%**	33.00%
Federal abatement	**- 10.00%**	- 10.00%
Federal surtax	**1.12%**	1.12%
Alberta provincial rate	**10.00%**	10.38%
	32.12%	34.50%
Expected taxes at statutory rate	**$ 425**	$ 294
Add (Deduct) the tax effect of:		
Net income attributable to the Trust – tax sheltered	**(254)**	(260)
Substantive enactment of trust taxation	**701**	–
Statutory rate adjustment for future rate reductions	**(283)**	(36)
Non-taxable portion of capital gains	**(17)**	–
Resource allowance	**–**	(39)
Non-deductible Crown charges	**–**	44
Assessments and adjustments	**–**	14
Other	**7**	–
Provision for taxes	**$ 579**	$ 17

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 accounting values on the balance sheets of the Trust and its subsidiaries at substantively enacted tax rates expected to apply when the differences reverse.

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

	2007	2006
Capital and other assets in excess of tax value	$ (1,809)	$ (826)
Net liabilities in excess of tax value	587	517
Balance at December 31	$ (1,222)	$ (309)

As at December 31, 2007, the following are the estimated balances available for deduction against future taxable income:

	2007
Canadian Oil Sands Trust:	
Canadian Development Expense [1]	$ 89
Canadian Oil Sands Limited:	
Undepreciated Capital Costs ("UCC") [2]	
Federal UCC	$ 1,685
Provincial UCC	$ 1,545
Scientific Research and Exploration Development	$ 9
Debt Issue Costs	$ 5

[1] *Deductible at a declining balance rate of 30 percent annually.*

[2] *Approximately 70 percent are deductible at an accelerated rate up to income from a mine, and the remaining balance is deductible at the declining balance rate of 25 percent annually. Approximately $132 million is not available for use, primarily related to Syncrude's Emissions Reduction project.*

Note 15. Unitholders' Equity

a) Unitholders' Capital

The Trust is authorized to issue an unlimited number of ordinary Units pursuant to the Trust Indenture. 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 are attached to the Units and retraction rights are limited. Units are redeemable at the option of the Unitholder at a price that is the lesser of 90 percent 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 2007 a total of 8.5 million Units were issued (2006 – 8.3 million) for proceeds of $240 million (2006 – $250 million), primarily related to the acquisition of the 1.25 percent indirect working interest in Syncrude. 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 / Trust Unit	Number of Units	Net Proceeds
Balance, January 1, 2006		462.6	$ 2,010
Issued on February 28, 2006 under DRIP	$ 28.14	1.5	$ 42
Issued on May 31, 2006 under DRIP	$ 31.75	2.2	$ 68
Issued on August 31, 2006 under DRIP	$ 34.44	2.0	$ 69
Issued on November 30, 2006 under DRIP	$ 27.67	2.5	$ 70
Issued on exercise of employee options	$ 8.60	0.1	$ 1
Balance, December 31, 2006		470.9	$ 2,260
Issued for acquisition of additional Syncrude working interest (non-cash)	$ 29.00	8.2	$ 237
Issued on exercise of employee options	$ 9.31	0.3	$ 3
Balance, December 31, 2007		**479.4**	**$ 2,500**

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 percent 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 percent 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 Premium Distribution, Distribution Reinvestment and Optional Unit Purchase Plan ("DRIP"). Eligible Unitholders were able to participate in the DRIP for the quarterly distributions payable subject to enrolment and certain other conditions. The DRIP allowed eligible Unitholders to direct their distributions to the purchase of additional Units at 95 percent 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 percent 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 percent of the Average Market Price if they had participated in either of the premium distribution or distribution reinvestment components of the DRIP.

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

c) Net Income per Trust Unit

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

(millions)	**2007**	2006
Weighted-average Trust Units outstanding, Basic	**479**	466
Effect of options	**2**	2
Weighted-average Trust Units outstanding, Diluted	**481**	468

Note 16. 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 36.74 percent (2006 – 35.49 percent) 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, 2007 Canadian Oil Sands has 2,134,000 options issued under a unit option and distribution equivalent plan (the "2002 Plan") and 426,282 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, 2007 the following options were issued and outstanding:

Date	Number of Options	Weighted-Average Exercise Price
Outstanding at January 1, 2006	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
Granted in 2007	0.2	$ 29.93
Exercised in 2007	(0.3)	$ (8.24)
Outstanding at December 31, 2007	**2.6**	**$ 12.85**
Exercisable at December 31, 2006	2.0	$ 8.67
Exercisable at December 31, 2007	**2.1**	**$ 9.93**

Exercise Price	Number of Options Outstanding	Weighted-Average Remining Life (Years)	Weighted-Average Exercise Price
$6.95 – $14.69 (2002 Plan)	2.1	2.9	$ 9.64
$23.24 – $35.33 (2005 Plan)	0.5	5.6	$ 28.89
	2.6	3.1	$ 12.85

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:

	2007	2006
Risk-free interest rate *(%)*	**3.75**	3.75
Expected life *(years)*	**4.5**	4.5
Expected volatility *(%)*	**29**	26
Expected distribution per Trust Unit *($)*	**1.20**	0.80
Fair value per stock option *($)*	**6.00**	5.44

Performance Unit Incentive Plan

Canadian Oil Sands adopted a performance unit incentive plan ("the Incentive Plan") and granted awards of PUPs pursuant to this plan during 2006 and 2007. 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. At December 31, 2007 a total of 69,298 PUPs were outstanding (2006 – 34,345), however these PUPs do not vest until 2009 and later.

Canadian Oil Sands recorded approximately $3 million in 2007 (2006 – $2 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 that 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. At the end of the vesting period, the cash settlement is based 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, 2007 a total of 179,303 restricted units were outstanding (2006 – 50,417), however these units do not vest until 2009 and later.

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 percent of Canadian Oil Sands Trust's Units and 30 percent 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 percent of the phantom units are exercisable, 25 percent the following year and the last 25 percent after year three. Subject to customary exceptions relating to early retirement, death or termination, each phantom unit issued under this plan after 2005 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, 2007 a total of 1.0 million phantom units were outstanding (2006 – 1.0 million) and a total of 0.3 million (2006 – 0.4 million) phantom units were exercisable.

In 2007 Canadian Oil Sands recorded approximately $14 million in operating expenses related to its 36.74 percent (2006 – 35.49 percent) share of Syncrude Canada's stock-based compensation expense related to the above Syncrude plans (2006 – $27 million).

Note 17. Interest, net

	2007	2006
Interest expense on long-term debt	**$ 91**	$ 102
Interest income and other	**(6)**	(4)
Interest expense, net	**$ 85**	$ 98

Note 18. Unitholder Distributions

The Consolidated Statements of Unitholder Distributions are 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.

Consolidated Statements of Unitholder Distributions

For the years ended December 31	2007	2006
Cash from operating activities	$ 1,377	$ 1,142
Add (Deduct):		
Capital expenditures	(183)	(300)
Acquisition of additional Syncrude working interest	(231)	–
Acquisition of Canadian Arctic Gas Ltd.	–	(199)
Disposition of properties	4	28
Change in non-cash working capital [1]	(1)	(47)
Reclamation trust funding	(7)	(5)
Change in cash and cash equivalents and financing, net [2]	(168)	(107)
Unitholder distributions	$ 791	$ 512
Unitholder distributions per Trust Unit [3]	$ 1.65	$ 1.10

[1] *From investing activities.*

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

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

Note 19. Capital Management

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

	2007	2006
Long-term debt	$ 1,218	$ 1,644
Cash and cash equivalents	(268)	(353)
Net debt	$ 950	$ 1,291
Unitholders' equity	$ 4,172	$ 3,956
Total capitalization [1]	$ 5,122	$ 5,247
Net debt to total capitalization *(%)*	19	25

[1] *Net debt plus Unitholders' equity*

Net debt to total capitalization decreased in 2007 to 19 percent from 25 percent. This is primarily a result of cash from operating activities exceeding distributions and capital expenditures, which reduced net debt while Unitholders' equity remained relatively unchanged.

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

- Ensuring financing capacity for Syncrude's expansion projects and/or acquisitions of oil sands-related assets that are expected to add value to our Unitholders;
- Maintaining an investment grade credit rating to support financing of future expansions and acquisition opportunities, and to allow the Trust to remain unhedged on its crude oil price exposure; and
- Distributing to Unitholders any cash that is not required for financing Syncrude's operations or capital investment growth opportunities that may offer Unitholders better value.

In October 2006 the Trust adjusted its financial plan by targeting higher net debt of $1.6 billion by the end of 2010 in response to the income trust tax changes announced by the government. The Trust's actual net debt will fluctuate around this level as factors such as crude oil prices, foreign exchange rates and Syncrude's operational performance vary from our assumptions.

As disclosed in Notes 11 and 12, the Trust is bound by certain debt covenants; however, these covenants do not specifically limit the Trust's ability to pay distributions. The Trust monitors its total debt-to-total book capitalization as it must be less than 55 percent according to certain financial covenants. With a net debt-to-total capitalization of 19 percent at December 31, 2007, the Trust is well within its limits and a significant increase in debt or decrease in equity would be required to negatively impact the Trust's financial flexibility.

As a result of the Canadian trust taxation legislation passed in June 2007 and effective January 1, 2011, the Trust is subject to certain capital growth restrictions referred to as "normal growth" equity rules. These rules limit the amount of Unitholders' capital that can be issued by the Trust in each of the next three years, based on the Trust's market capitalization on October 31, 2006, as follows:

($ billions)	Annual	Cumulative
Normal growth capital allowed in:		
2008 [1]	2.9	8.6
2009	2.9	11.5
2010	2.9	14.4

[1] *The Trust's allowed growth capital prior to 2008 was approximately $5.7 billion.*

If the maximum equity growth allowed is exceeded, the Trust may be subject to trust taxation prior to 2011.

In addition to growth capital restrictions, the Trust also monitors its foreign ownership levels to the extent possible given the practical limitations regarding beneficial ownership information. The Trust Indenture, under which the Trust was created, provides that no more than 49 percent of the Units of the Trust can be held by non-Canadian residents. The potential impact of breaching this threshold may be the loss of mutual fund trust status, which may significantly adversely impact the valuation of the Units. At December 31, 2007, the Trust's best estimate of the foreign ownership level was 32 percent, based on account data at November 16, 2007.

Note 20. Financial Instruments

Fair Values

The Trust's financial instruments include cash and cash equivalents, short-term investments, accounts receivable, accounts payable and accrued liabilities and debt. The fair values of the Trust's 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 carrying values of the Trust's financial instruments at December 31, 2007 are as follows:

	Held for Trading	Loans and Receivables	Available for Sale	Other Liabilities	Total Carrying Value
Cash and cash equivalents	$ 268	$ –	$ –	$ –	$ 268
Accounts receivable	–	379	–	–	379
Reclamation trust	–	–	37	–	37
Accounts payable and accrued liabilities	–	–	–	289	289
Long-term debt	–	–	–	1,218	1,218
	$ 268	$ 379	$ 37	$ 1,507	$ 2,191

The fair values of the Senior Notes and medium term notes based on third-party market indications are as follows:

	2007		2006	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
3.95% medium term notes due January 15, 2007	$ –	$ –	$ 175	$ 175
Floating rate medium term notes due January 15, 2007	–	–	20	20
7.625% Senior Notes due May 15, 2007 (US$70 million)	–	–	81	82
5.75% medium term notes due April 9, 2008	149	150	150	152
5.55% medium term notes due June 29, 2009	200	201	200	205
4.8% Senior Notes due August 10, 2009 (US$250 million)	246	246	291	286
5.8% Senior Notes due August 15, 2013 (US$300 million)	293	302	350	349
7.9% Senior Notes due September 1, 2021 (US$250 million)	243	269	291	340
8.2% Senior Notes due April 1, 2027 (US$73.95 million)	71	81	86	101
	$ 1,202	$ 1,249	$ 1,644	$ 1,710

Financial Instrument Risk Management

Canadian Oil Sands provides a detailed risk management discussion, including its exposure and management of credit risk, liquidity risk and market risk (being foreign currency risk and interest rate risk) in its 2007 annual Management's Discussion and Analysis under the headings "Financial Market Risk" and "Credit Risk" included in the "Risk Management" section.

Note 21. Crown Royalties

Under Alberta's current generic Oil Sands Royalty, the Crown royalty is calculated as the greater of one percent of gross revenue before hedging or 25 percent of net revenues, defined as gross plant gate revenue before hedging, less allowed Syncrude operating, non-production and capital costs. In May 2006 there was a shift in the royalty rate from the minimum one percent of gross revenues to 25 percent of net revenues. As at December 31, 2007, there were no carry forward deductions for royalty purposes.

On October 25, 2007 the Alberta government announced significant changes to the Crown royalty regime that are effective for most companies starting in 2009. The Syncrude joint venture owners have an existing legal contract with the government that establishes the current Crown royalty terms to December 31, 2015, including the option to convert to a bitumen-based royalty prior to 2010. Canadian Oil Sands, as one of the Syncrude owners, is in discussions with the Alberta government regarding both the conversion to a bitumen-based royalty and an equitable solution to offset Syncrude's transition to the higher generic royalty rate prior to 2016. The outcome of the negotiations is not yet determinable.

Note 22. Commitments

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

a) Management Services Agreement

Effective November 1, 2006 Syncrude Canada entered into a comprehensive Management Services Agreement with Imperial Oil Resources Ltd. ("Imperial Oil") to provide operational, technical and business management services to Syncrude Canada. The agreement has an initial term of 10 years, with five-year renewal provisions. Either Syncrude Canada or Imperial Oil has the option to cancel the agreement on 24 months notice for any reason. Canadian Oil Sands' 36.74 percent share of the annual fixed fee payable to Imperial Oil 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 purchase commitments for natural gas deliveries at floating market-related prices. There is one long-term natural gas supply contract that expires on October 31, 2010. The remaining contracts expire during 2008, unless they are renewed. Canadian Oil Sands' 36.74 percent share of this commitment is for 26 million GJs.

c) Pension Plan Solvency Deficiency Payments

The latest actuarial valuation completed in 2007 for Syncrude Canada's defined benefit pension plan requires payments to fund the pension plan solvency deficiency. Canadian Oil Sands' 36.74 percent share of these funding requirements is $122 million over the next 14 years.

d) Expenditure Commitments

Canadian Oil Sands is committed to remaining costs of approximately $178 million related to its 36.74 percent share of Syncrude's Emissions Reduction project, which are expected to be incurred over the next three 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 2008 to 2009 is $88 million, or $32 million net to Canadian Oil Sands.

Syncrude has various vendor commitments owing in 2008 to 2009 for non-capital items of which the more significant purchases total $46 million, or $17 million net to Canadian Oil Sands.

e) 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 2007, based on Canadian Oil Sands' 36.74 percent working interest, was $21 million (2006 – $21 million based on a 35.49 percent working interest). Based on Canadian Oil Sands' 36.74 percent working interest, the projected cost of service for 2008 is $20 million. This cost is expected to remain around $20 million through to 2035.

Note 23. Contingencies

a) 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 2002 and COSII's 2000, 2001, and 2002 Tax Returns have been reassessed by the Canada Revenue Agency and Notices of Objection have been filed pertaining to the Syncrude Remission Order and other items. 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, 2007.

b) 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 that 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.

Note 24. 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 $61 million. Canadian Oil Sands accrues an asset retirement obligation on its Consolidated Balance Sheet for its share of Syncrude's mine reclamation costs, which was $226 million at December 31, 2007.

Note 25. Supplementary Information

a) Change in Non-cash Working Capital

	2007	2006
Operating activities		
Accounts receivable	$ (135)	$ (47)
Inventories	(18)	3
Prepaid expenses	1	(4)
Accounts payable and accrued liabilities	(15)	23
Less: A/P change reclassed to investing and other	2	47
	$ (165)	$ 22
Investing activities		
Accounts payable and accrued liabilities	$ (1)	$ (47)

b) Interest and taxes paid

	2007	2006
Large Corporations and Income Tax paid	$ 1	$ 5
Interest charges paid	$ 94	$ 100