Corrected Present Value per Unit p 6-7

Rating: Buy
S&P 500: 1095

Canadian Oil Sands Trust
Great North American Energy Resource

Symbol	COSWF	*Ebitda Next Twelve Months ending 6/30/05 (US$mm)*	770
Rating	Buy	*North American Natural Gas/Ebitda (%)*	-8
Price (US$/sh)	36.68	*Natural Gas and Oil Production/Ebitda (%)*	100
Pricing Date	7/28/04	*Adjusted Reserves/Production NTM*	20.0
Shares (mm)	87	*EV/Ebitda*	6.0
Market Capitalization (US$mm)	3,200	*PV/Ebitda*	8.9
Debt (US$mm)	1,400	*Undeveloped Reserves (%)*	10
Enterprise Value (EV) (US$mm)	4,600	*Natural Gas and Oil Ebitda (US$/boe)*	23.86
Present Value (PV) (US$mm)	6,800	*Present Value Proven Reserves(US$/boe)*	6.36
Net Present Value (US$/share)	62	*Present Value Proven Reserves(US$/mcfe)*	1.06
Debt/Present Value	0.21	*Earnings Next Twelve Months (US$/sh)*	4.79
McDep Ratio - EV/PV	0.68	*Price/Earnings Next Twelve Months*	8
Dividend Yield (%/year)	4.1	*Indicated Annual Dividend (US$/sh)*	1.50

Note: Estimated cash flow and earnings tied to one-year futures prices for oil.
Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.

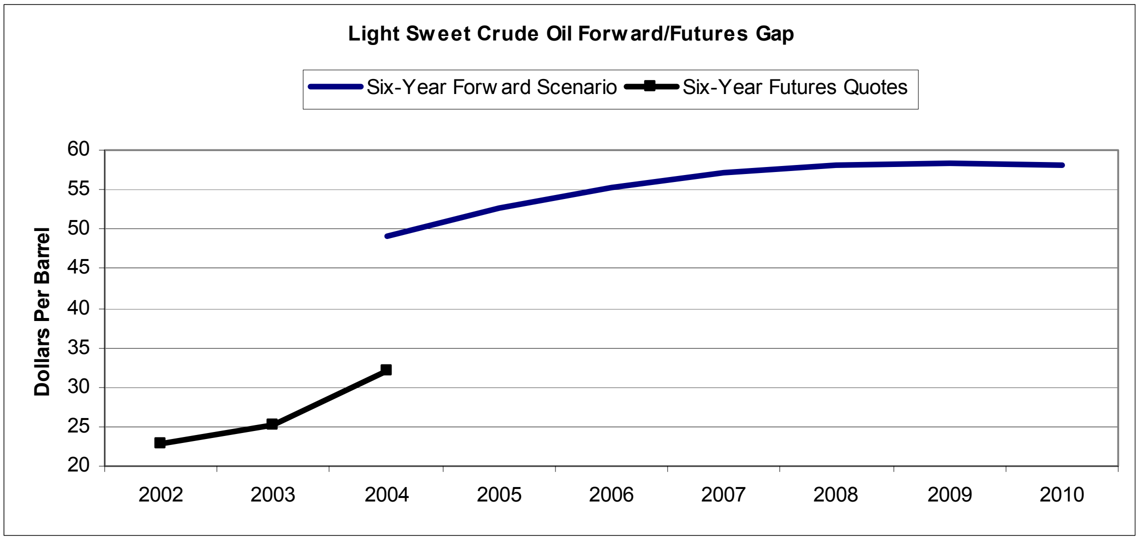
Summary and Recommendation

We continue to recommend current purchase of the units of **Canadian Oil Sands Trust** for concentrated participation in a great North American energy resource. The trust distributes cash income to unitholders at a rate that may triple by 2007 and last indefinitely. Within a year there will be no need to limit distributions at the current rate as spending on a 40% capacity expansion will likely be finished. Within two years operations are expected to reach the expanded level. During that time the stock has 69% appreciation potential to estimated present value of $62 a unit. Beyond that the stock has characteristics of a top candidate for a potential ten-fold return in ten years including a product with appreciating value, volume growth with long-life sustainability, industry leading partners and low fees. A private placement of new equity announced July 28 lifts the overhang that appears to have held back the stock for the past six months.

Oil Price Moving Sharply Higher

The value of the trust is directly proportional to the future price of light, sweet crude oil. Publicly traded in the commodity markets, futures contracts for delivery over the next six years continue in a steep uptrend. Whether the trend will slow for awhile we cannot know. Our scenario is that a move that began in the low $20 and is now in the mid $30 could reach $50 (see chart).

Economics support the price trends. Oil demand is strong with world economic growth paced by developing countries, especially China. Supply is tight as the Middle East is showing maturity with the workhorse giant fields on the verge of peaking.



Monetary factors favor oil investment as interest rates below inflation drive investors to real assets for protection against currency debasement. The authorities are unlikely to raise interest rates above inflation for the rest of the decade. We can be more confident of that as the official U.S. government determined inflation measure appears understated.

Environmental factors favor higher oil and gas price. Coal is still a quarter of world primary energy supply. Cleaner oil and gas are undervalued as long as we tolerate environmentally disadvantageous coal.

Political factors favor higher oil price in consuming countries and producing countries. In consuming countries, many view the use of military force as an attempt to hold down oil price at what we would term an artificially low level. Thirty years ago some of the same political leaders directed price controls in a failed attempt to hold oil price artificially low. Ironically, the current U.S. Secretary of Defense, the head of our military effort, was the same person in charge of the euphemistically named "Cost of Living Council", the head of our price control efforts under the late President Nixon.

In producing countries we have seen time and again that oil production goes down when international oil companies are not welcome. After Iran, Iraq and Venezuela, now Saudi Arabia appears vulnerable to political change that may bring about production decline.

There may be a risk of oil stock price decline even if oil price remains firm. That happened in 1974 when economic activity and the stock market declined severely. We think the current parallel occurred in 2002 and is now behind us. Nonetheless the stock market may have begun a new moderate downward phase of its cycle. We liken that to the mid to late 1970s when oil price held and then took off again.

Distribution May Triple by 2007

The trust normally distributes all of its cash flow after debt obligations and capital expenditures. In tax-efficient fashion, the trust avoids double taxation as the distribution is virtually free of corporate tax. Government does get its fair share through a royalty to the Province of Alberta that applies after capital expenditures are recovered. Nonetheless the potential cash generation and income distribution is quite attractive particularly in the oil price environment we envision.

To be more specific about the tripling potential that we have repeated we detail a sensitivity calculation for 2007 (see table). No surprise, there is quite a dependence on oil price. At $25 a barrel for benchmark Light Sweet Crude Oil the distribution might only increase by 50%, in line with the volume increase for the capacity expansion now progressing. By the free cash flow standard, the dividend might triple at an oil price between $30 and $35 a barrel, a high probability target in our opinion. Should the current futures price for the next twelve months of $40 be achieved, a 50% probability by efficient market theory, the distribution could quintuple. Somewhat speculatively, but nice to contemplate, the dividend could septuple at $50 a barrel.

Equity Overhang Lifted

Another important implication of the distribution calculation is that under current futures prices the trust generates positive free cash flow despite a heavy capital burden in the remaining twelve months of major spending for expansion. After paying a distribution at today's rate, the trust needs to raise new financing in the amount of about C$140 million in the next twelve months. A dividend reinvestment plan would provide about C$50 million. The need has now been met with room to spare with the announcement of an intended private placement of 3 million shares at C$48 (about US$36) a share.

We have been dutifully repeating management's warnings that the trust might have to raise new equity. The impact on stock price has probably been overdone consider the remoteness of the true need. If the market reacts as it did a year ago after an equity offering we may see an accelerating gain in stock price in the next few months.

Next Twelve Months Cash Flow Advancing

Along with higher oil price, volumes are advancing, and costs are coming down to take our projection of next twelve months unlevered cash flow (Ebitda) over C$1 billion (see table). Volumes may set a new quarterly record over the next three months. That would have to be more than the first quarter's record 253,000 barrels daily and in excess of management's third quarter estimate of 250,000 barrels daily. Also with most costs fixed, cost per barrel goes down when volume performance is better.

For valuation purposes we calculate unlevered cash flow before non-operating items like oil price insurance. The trust reports levered cash flow after that and other items. Hedging losses may reach a staggering C$70 million in the current quarter alone. The trust had earlier fixed the price on half its oil volume. That would have looked good had oil price weakened rather than strengthened. To some extent the hedging was justified because the trust could not afford to be in a position where it could not meet a capital call for its share of expansion spending. It is now obvious that hedging is no longer needed and the trust has no oil hedged after the end of 2004.

As a result the estimated cash flow and earnings to be reported by the trust jump in 2005 after hedging rolls off.

Canadian Oil Sands Trust
Distribution Potential, 2007

	Next Twelve Months 6/30/05	*Year 2007*	*Year 2007*	*Year 2007*	*Year 2007*	*Year 2007*
Volume						
Syncrude (mbd)	242	350	350	350	350	350
Trust Oil (mmb)	31.5	45.4	45.4	45.4	45.4	45.4
Price						
WTI Cushing (US$/bbl)	39.56	25.00	30.00	35.00	40.00	50.00
Currency (US$/C$)	0.76	0.76	0.76	0.76	0.76	0.76
WTI Cushing (C$/bbl)	52.26	32.89	39.47	46.05	52.63	65.79
Differential	1.05	1.00	1.00	1.00	1.00	1.00
Trust Oil Price (C$/bbl)	53.31	33.89	40.47	47.05	53.63	66.79
AECO Natural Gas (C$/GJ)	6.32	3.99	4.79	5.59	6.39	7.99
Revenue (C$mm)	1,677	1,537	1,836	2,134	2,432	3,029
Expense						
Production	456	612	612	612	612	612
Purchased Energy	130	119	142	166	190	237
Other	72	91	91	91	91	91
Total	659	822	845	869	893	940
Crown Royalties	17	122	191	259	328	465
Ebitda	1,001	593	799	1,005	1,211	1,623
Non-Production	47	47	47	47	47	47
Interest	92	92	92	92	92	92
Capital expenditures	819	180	180	180	180	180
Free Cash Flow (C$mm)	43	275	481	687	893	1,304
Units (millions)	88.9	88.9	88.9	88.9	88.9	88.9
Free Cash Flow (C$unit)	0.49	3.09	5.40	7.72	10.04	14.67
Distribution (C$/unit)	2.00	3.00	5.00	7.00	10.00	14.00
Ratios						
Production (C$/bbl)	14.51	13.50	13.50	13.50	13.50	13.50
Purchased Energy (C$/bbl)	4.14	2.62	3.14	3.66	4.19	5.24
Prod&Purch En (C$/bbl)	18.65	16.12	16.64	17.16	17.69	18.74
Other Expense (C$/bbl)	2.29	2.00	2.00	2.00	2.00	2.00
Crown Royalties (C$/bbl)	0.54	2.69	4.21	5.72	7.24	10.26
Ebitda Margin	60%	39%	44%	47%	50%	54%

Canadian Oil Sands Trust
Next Twelve Months Operating and Financial Estimates

	Q1 3/31/04	*Q2 6/30/04*	*Q3E 9/30/04*	*Q4E 12/30/04*	***Year 2004E***	*Q1E 3/31/05*	*Q2E 6/30/05*	***Next Twelve Months 6/30/05***
Volume								
Syncrude (mmb)	23.0	20.8	23.0	20.1	**87.0**	22.8	22.8	**88.6**
Syncrude (mbd)	253	229	250	218	**238**	250	250	**242**
Days	91	91	92	92	**366**	91	91	**366**
Trust share (%)	34.9	37.2	35.5	35.5	**35.7**	35.5	35.5	**35.5**
Trust Oil (mmb)	8.04	7.75	8.17	7.14	**31.1**	8.08	8.08	**31.5**
Trust Oil (mbd)	88.3	85.1	88.8	77.6	**84.9**	88.8	88.8	**85.9**
Price								
WTI Cushing (US$/bbl)	35.23	38.34	41.14	40.62	**38.83**	39.26	38.13	**39.79**
Currency (US$/C$)	0.76	0.74	0.75	0.75	**0.75**	0.75	0.75	**0.75**
WTI Cushing (C$/bbl)	46.43	51.81	54.68	53.98	**51.73**	52.18	50.67	**52.88**
Differential	(0.70)	1.07	1.13	1.11	**0.58**	1.08	1.05	**1.06**
Trust Oil Price (C$/bbl)	45.73	52.88	55.81	55.10	**52.31**	53.26	51.72	**53.94**
Henry Hub Nat Gas (US$/m	5.64	6.10	5.96	6.36	**6.02**	6.76	5.94	**6.25**
Henry Hub Nat Gas (C$/mn	7.44	8.24	7.93	8.45	**8.01**	8.98	7.89	**8.31**
AECO Natural Gas (C$/GJ)	6.17	6.39	6.14	6.55	**6.31**	6.96	6.12	**6.44**
Revenue ($mm)								
Oil	367	410	456	393	**1,626**	430	418	**1,697**
Transportation & Marketing	(11)	(11)	(13)	(11)	**(46)**	(12)	(12)	**(47)**
Other	0	(0)	(0)	(0)	**(0)**		-	**(0)**
Total	357	398	443	382	**1,580**	418	406	**1,649**
Expense								
Production	105	114	114	114	**447**	114	114	**456**
Purchased Energy	31	33	32	34	**129**	36	32	**133**
Crown Royalties	4	4	5	4	**16**	4	4	**17**
Insurance	3	2	2	2	**7**	3	3	**8**
Administration	2	2	2	2	**8**	3	3	**9**
Taxes and Other	2	2	2	2	**8**	2	2	**8**
Total	146	156	156	157	**615**	161	157	**631**
Ebitda	211	242	287	225	**965**	257	249	**1,018**
Deprec., Deplet., & Amort.	46	41	49	43	**179**	48	48	**189**
Oil Hedging	41	59	71	68	**239**			**139**
Currency Hedging	(3)	(2)	(4)	(4)	**(12)**	(4)	(4)	**(15)**
Non-Production	11	11	11	11	**43**	13	13	**47**
Exchange on U.S. Debt	12	21			**33**			**-**
Future Income Tax	(21)	(9)			**(30)**			**-**
Ebit	125	121	160	107	**513**	199	192	**658**
Interest	22	23	23	23	**92**	23	23	**92**
Net Income ($mm)	103	98	137	83	**422**	177	169	**566**
Per Unit ($)	1.18	1.12	1.56	0.94	**4.80**	1.98	1.89	**6.37**
Units (millions)	87.5	87.6	88.1	88.6	**87.9**	89.1	89.6	**88.9**
Cash Flow ($mm)	140	151	186	126	**603**	225	218	**755**
Per Unit ($)	1.62	1.77	2.11	1.43	**6.86**	2.53	2.43	**8.49**
Ratios								
Production ($/bbl)	13.09	14.73	13.97	15.99	**14.39**	14.12	14.12	**14.51**
Purchased Energy ($/bbl)	3.83	4.25	3.88	4.73	**4.16**	4.44	3.90	**4.22**
Prod&Purch En ($/bbl)	16.93	18.98	17.85	20.72	**18.55**	18.57	18.03	**18.73**

Volume Growth with Long-Life Sustainability

Only about C$2 billion (COSWF C$ 0.7 billion) remain to be spent on a C$7.8 billion (COSWF C$2.8 billion) capacity expansion of the Syncrude (COSWF 35.5%) oil sands facility in northern Alberta. The new capacity should be fully operational at 350,000 barrels daily in mid 2006. Some of the volume benefits of the expansion may be reflected in the remainder of this year and increasingly after the middle of 2005.

Syncrude reports proven reserves of 3.0 billion barrels with another 6.1 billion barrels of resources. Proven reserves amount to 23 years of supply at the rate of 350,000 barrels daily. With such a strong resource base, annual volume is likely to continue growing. Alternatively we can say that current volume could last indefinitely. Arbitrarily we limit the reserve life to twenty years when using reserve life to approximate cash flow multiple to approximate present value of US$62 a unit.

Present Value of US$62 a Unit Reflects US$34 Oil

When we raised present value of the trust and about 70 stocks in March we took a shortcut approach that multiplied next twelve months unlevered cash flow by a multiple that depended on adjusted reserve life. Because US$35 was the one-year futures oil price at the time we suggested that our estimates reflected constant oil price at $35. Now we present a more detailed calculation that justifies US$62 a unit at a constant real oil price of $34 (see table).

One reason we are confident of our value in a rising oil price environment is the sensitivity of the value of the trust to the price of oil. For example, at an oil price of US$40, present value would be US$89 a unit. In other words a six dollar a barrel oil price increase is worth $27 a unit in present value. Recall that six-year futures, the most transparent market indicator of long-term oil price have increased about $10 a barrel in the past two years. During that same time Canadian Oil Sands Trust stock price has advanced $10 a unit, not $56 a unit as implied by the sensitivity example.

Sensitivity works both ways. At US$20 a barrel, present value almost disappears. At US$28 a barrel, present value is $36 a unit, near current stock price.

Discount Cash Flow at 7% per Year after Inflation

Nor can assumptions be applied in a vacuum. In particular, price escalation and discount rate interact. In this case we make the simplification of dealing in constant dollars. That assumes price escalation, cost escalation and discount rate are all net of inflation. The one exception is that we escalate natural gas presuming that it will continue to increase in price relative to oil.

On discount rate we presume that earning a 5% real return per year on an unlevered basis is a decent achievement. That compares to the 2% real return per year offered by U.S. Treasury Inflation Protected Securities. For good measure we bump that up to 7% for the Syncrude model.

Analysts often use artificially high discount rates to reflect risk. That technique is incorporated into the widely applied Capital Asset Pricing Model. While it is important to recognize risk in some fashion, we are skeptical that high discount rates accurately measure risk for long life assets. In contrast, we believe that investors in long-life assets may gain an edge partly because the market can misprice long-life. Canadian Oil Sands Trust seems like a largely unrecognized long-life jewel in that context.

Canadian Oil Sands Trust
Present Value of Future Cash Flow

Net Present Value (US$/unit): 62 Discount rate (%/yr): 7.0

	Volume						Other &	Capital		Cash		Present
	Syncrude	Trust	Price	Revenue	Prod Cost	Natural Gas	NonOper	Exp.	Royalty	Flow	Disc	Value
Year	(mbd)	(mmb)	(US$/bbl)	(C$mm)	(C$/bbl)	(C$/bbl)	(C$/bbl)	(C$mm)	(C$mm)	(C$mm)	Factor	(C$mm)
Total 2005 through 2034; years ending on 6/30												
		1340	45.12	60465				6288	6719	21346	0.42	9000
2005	242	31.5	40.59	1686	14.51	4.14	3.78	819	17	145	0.97	140
2006	300	38.9	34.00	1746	14.00	3.55	3.30	429	17	489	0.90	442
2007	350	45.4	34.00	2037	13.50	3.63	3.03	180	20	922	0.84	779
2008	350	45.4	34.00	2037	13.50	3.70	1.00	180	20	1011	0.79	798
2009	350	45.4	34.00	2037	13.50	3.77	1.00	180	268	760	0.74	561
2010	350	45.4	34.00	2037	13.50	3.85	1.00	180	267	758	0.69	522
2011	350	45.4	34.00	2037	13.50	3.92	1.00	180	266	755	0.64	486
2012	350	45.4	34.00	2037	13.50	4.00	1.00	180	266	752	0.60	453
2013	350	45.4	34.00	2037	13.50	4.08	1.00	180	265	750	0.56	422
2014	350	45.4	34.00	2037	13.50	4.16	1.00	180	264	747	0.53	393
2015	350	45.4	34.00	2037	13.50	4.25	1.00	180	263	744	0.49	366
2016	350	45.4	34.00	2037	13.50	4.33	1.00	180	262	741	0.46	340
2017	350	45.4	34.00	2037	13.50	4.42	1.00	180	261	738	0.43	317
2018	350	45.4	34.00	2037	13.50	4.51	1.00	180	260	735	0.40	295
2019	350	45.4	34.00	2037	13.50	4.60	1.00	180	259	732	0.37	274
2020	350	45.4	34.00	2037	13.50	4.69	1.00	180	258	729	0.35	255
2021	350	45.4	34.00	2037	13.50	4.78	1.00	180	257	726	0.33	238
2022	350	45.4	34.00	2037	13.50	4.88	1.00	180	256	722	0.31	221
2023	350	45.4	34.00	2037	13.50	4.98	1.00	180	254	719	0.29	206
2024	350	45.4	34.00	2037	13.50	5.08	1.00	180	253	716	0.27	191
2025	350	45.4	34.00	2037	13.50	5.18	1.00	180	252	712	0.25	178
2026	350	45.4	34.00	2037	13.50	5.28	1.00	180	251	709	0.23	165
2027	350	45.4	34.00	2037	13.50	5.39	1.00	180	250	705	0.22	154
2028	350	45.4	34.00	2037	13.50	5.50	1.00	180	249	701	0.20	143
2029	350	45.4	34.00	2037	13.50	5.61	1.00	180	247	698	0.19	133
2030	350	45.4	34.00	2037	13.50	5.72	1.00	180	246	694	0.18	124
2031	350	45.4	34.00	2037	13.50	5.83	1.00	180	245	690	0.17	115
2032	350	45.4	34.00	2037	13.50	5.95	1.00	180	243	686	0.16	107
2033	350	45.4	34.00	2037	13.50	6.07	1.00	180	242	682	0.15	99
2034	350	45.4	34.00	2037	13.50	6.19	1.00	180	241	678	0.14	92

U.S. Investors Pay Low Tax on Distributions

The first layer of tax to U.S. investors is 15% withholding applied by Canada. If necessary, tax exempt investors should instruct the paying agent not to withhold. Taxable investors normally can recover the withholding tax through a foreign tax credit to their U.S. tax obligation.

Next, a portion of the distribution, about 15%, is considered a return of capital on which U.S. holders owe no U.S. tax. The remaining distribution is taxable as a qualified dividend meaning that it is eligible for the low 15% maximum rate. We are reasonably confident of our interpretation, but we are not qualified to give expert tax advice.

Limitation of Liability Question Put to Rest

New legislation is final that confirms limited liability for investors in the trust. Though the principle is crucial, there should never have been much doubt as to the resolution of the technicalities that suggested otherwise.

Canadian Ownership Concern Cools

After a surge of U.S. ownership from what we thought was about 20% a few years ago to more than 40% today, recent funds flows have suggested a cresting of U.S. ownership, at least temporarily. That gives the trust more time to seek an orderly solution to a rigid limit on non-Canadian ownership. Investors who buy for a long term cash flow stream might eventually face restrictions that limit buyers of the units. Like limitation of liability, we are hopeful that this, too, becomes a non-issue in due course.

Transaction Costs Should be Minimal for U.S. Investors

In today's world of efficient capital markets it is relatively simple for U.S. investors to buy Canadian Oil Sands even though the stock is not listed in the U.S. The lack of a U.S. listing at times feels like an advantage. The stock gets little attention normally in a market place thirsting for income investments. Thus, for the U.S. investor willing to figure out how to buy the stock, the exercise promises to be worthwhile.

In our experience of the past few years we have seen, by and large, that full service brokers and online brokers appear to execute transactions efficiently under the symbol COSWF. It behooves the buyer to have a sense of the recent Canadian quote for symbols like COS.UN, or COS_U.TO on the Toronto exchange and the latest Canadian/U.S. dollar exchange rates both freely available on a short delay basis. That is the basis for the COSWF price that we use in our research.

Historical Advantages

Among the points we have emphasized is the quality of the participants in the Syncrude Joint Venture led by **ExxonMobil (XOM)** through its 70% owned affiliate **Imperial Oil (IMO)**. Investors of the trust also have the advantage that no manager or general partner extracts a disproportionate share of the rewards.

Kurt H. Wulff, CFA

Research Methodology/Ratings Description: McDep Associates is an independent research originator focused on oil and gas stocks exclusively. The firm applies the thirty years of experience of its analyst to estimate a present value of the oil and gas resources and other businesses of covered companies. That value is compared with a company's stock market capitalization and debt. Stocks with low market cap and debt relative to present value tend to outperform stocks with high market cap and debt relative to present value. Buy recommendations are expected to deliver a total return better than 7% per year above inflation. Hold recommendations assume the attributes of the underlying business are reflected in the current price of the stock. Sell recommendations are expected to deliver a negative total return less than 7% per year including the effects of inflation.

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