

Rating: Buy
S&P 500: 1171

Canadian Oil Sands Trust

Raise Net Present Value to US\$94 a Unit

<i>Symbol</i>	COSWF	<i>Ebitda Next Twelve Months ending 3/31/06 (US\$mm)</i>	920
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	-7
<i>Price (US\$/un)</i>	62.88	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	1/28/05	<i>Adjusted Reserves/Production NTM</i>	20.0
<i>Units (mm)</i>	91	<i>EV/Ebitda</i>	7.9
<i>Market Capitalization (US\$mm)</i>	5,740	<i>PV/Ebitda</i>	11.0
<i>Debt (US\$mm)</i>	1,560	<i>Undeveloped Reserves (%)</i>	10
<i>Enterprise Value (EV) (US\$mm)</i>	7,300	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	29.24
<i>Present Value (PV) (US\$mm)</i>	10,100	<i>Present Value Proven Reserves(US\$/boe)</i>	9.44
<i>Net Present Value (US\$/unit)</i>	94	<i>Present Value Proven Reserves(US\$/mcf)</i>	1.57
<i>Debt/Present Value</i>	0.15	<i>Earnings Next Twelve Months (US\$/un)</i>	6.90
<i>McDep Ratio - EV/PV</i>	0.72	<i>Price/Earnings Next Twelve Months</i>	9
<i>Dividend Yield (%/year)</i>	2.6	<i>Indicated Annual Dividend (US\$/un)</i>	1.63

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 (COSWF)** for rising cash distributions from oil resources we now value at \$94 a unit, up from \$72. On January 26, 2005, we revised our estimate of long-term oil price to \$40 a barrel constant real, up from \$35, and raised net present value for COS and other producers to levels previously calculated in sensitivity comparisons. On the same date, Standard & Poors announced that it intended to include income trusts, of which COS is the largest, in its Toronto Stock Exchange Index as of about mid-2005. The trust distributes income to unitholders at a rate that may triple by 2007 and last indefinitely. Within a half year spending on a 40% capacity expansion will likely be finished and within a year and a half operations are expected to reach the expanded level. Having about doubled in the past two years, the stock may be on a path to a potential ten-fold return in ten years. Positive characteristics include a product with appreciating value, volume growth with long-life sustainability, industry leading partners, and low fees. Risks include oil price and operating reliability.

Path to a U.S. Listing Taking Shape

The indexing news was one of the highlights we would emphasize in the Trust's report of latest quarterly results released after the market close on Friday, January 29. Indices are popular tools to guide and even program the stock selection of gargantuan pools of retirement and investment capital. As a result, when a stock is to be added to an index there can be an almost robotic rush to buy the shares of the subject stock.

There were two uncertainties that apparently needed to be worked out before selection for the index could occur. One was the limitation of liability that was clarified in new provincial legislation. The other was the limitation on non-Canadian ownership that now appears to be withdrawn by the Canadian Federal Government. The trust still has a limitation in its charter that

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we expect will be changed. Until then Canadian ownership may be boosted with the indexing development.

Ultimately after ownership restrictions are relaxed from the trust's charter, we may see the shares listed for trading in the U.S. within a few years. Just as indexing widens the market for the trust's shares, an eventual U.S. listing could have a further salutary impact.

There is an active, liquid market for trust shares on the Toronto Stock Exchange, symbol COS.UN or something similar. The most convenient way to buy the stock for most U.S. investors, institutional or individual, is to place an order under the symbol COSWF. Before placing the order, investors who may not subscribe to real-time quotes can approximate the price with a delayed Toronto quote multiplied by a delayed exchange rate. Toronto quotes are freely available on Yahoo and exchange rates on the Bloomberg public site, for example. Armed with that perspective, investors are likely to get an efficient transaction with a full service or online broker. Even the modest effort required by a thoughtful investor to buy COSWF makes the point indirectly that the stock would likely be more widely held if future investors were relieved of that extra effort as in a U.S. listing.

Cash Flow Sensitive to Oil Price

Actual revenue for the fourth quarter totaled the same as in the most recent projection we published (see table, [Next Twelve Months Operating and Financial Estimates](#) and compare to *Stock Idea Canadian Oil Sands Trust*, December 3, 2004, archived on www.mcdep.com). Expense was somewhat higher as a result of some extended maintenance.

The major change in the latest cash flow projection is crude oil price. On current futures prices, NTM Ebitda is projected at more than C\$1.1 billion. In early December, the projection was less than C\$0.9 billion. The oil price comparison is about US\$47 now versus about US\$43 two months ago. The sensitivity to oil price illustrates both the opportunity and the risk in Canadian Oil Sands stock.

Management provides unusually thorough and useful disclosure in its quarterly discussions available on www.cos-trust.com. We also have a two and a half year log of past analyses of the trust accessible on www.mcdep.com.

Kurt H. Wulff, CFA

Canadian Oil Sands Trust
Next Twelve Months Operating and Financial Estimates

	<i>Q3</i>	<i>Q4</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Next Twelve Months</i>
	<i>9/30/04</i>	<i>12/30/04</i>	<i>2004</i>	<i>3/31/05</i>	<i>6/30/05</i>	<i>9/30/05</i>	<i>12/31/05</i>	<i>2005E</i>	<i>3/31/06</i>	<i>3/31/06</i>
Volume										
Syncrude (mmb)	22.4	21.0	87.2	20.0	18.8	22.6	22.6	84.0	23.0	87.0
Syncrude (mbd)	243	228	238	222	207	246	246	230	256	238
Days	92	92	366	90	91	92	92	365	90	365
Trust share (%)	35.7	34.3	35.5	35.5	35.5	35.5	35.5	35.5	35.5	35.5
Trust Oil (mmb)	7.97	7.20	31.0	7.10	6.67	8.02	8.02	29.8	8.18	30.9
Trust Oil (mbd)	86.6	78.3	84.6	78.9	73.3	87.1	87.1	81.6	90.9	84.6
Price										
WTI Cushing (US\$/bbl)	43.89	48.30	41.44	48.02	48.95	48.09	47.00	48.02	45.93	47.49
Currency (US\$/C\$)	0.76	0.82	0.77	0.82	0.82	0.82	0.82	0.82	0.82	0.82
WTI Cushing (C\$/bbl)	57.76	59.12	53.78	58.79	59.92	58.87	57.53	58.78	56.22	58.14
Differential (1.32)	0.76	0.76	(0.21)	0.75	0.77	0.76	0.74	0.70	0.72	0.66
Trust Oil Price (C\$/bbl)	56.44	59.88	53.57	59.54	60.69	59.62	58.27	59.48	56.95	58.79
Henry Hub Nat Gas (US\$/m)	5.75	7.10	6.15	6.28	6.33	6.44	6.77	6.46	7.24	6.70
Henry Hub Nat Gas (C\$/mm)	7.57	8.69	7.98	7.69	7.75	7.88	8.29	7.90	8.86	8.20
AECO Natural Gas (C\$/GJ)	6.19	6.40	6.29	5.66	5.71	5.80	6.11	5.82	6.53	6.04
Revenue (\$mm)										
Oil	450	431	1,658	423	405	478	467	1,773	466	1,816
Transportation & Marketing	(12)	(11)	(45)	(10)	(10)	(12)	(11)	(44)	(11)	(45)
Other	0	(0)	0	-	-	-	-	-	-	-
Total	438	421	1,614	412	395	466	456	1,729	454	1,771
Expense										
Production	133	118	470	116	116	116	116	465	116	465
Purchased Energy	31	35	130	31	31	32	33	127	36	132
Crown Royalties	4	6	18	4	4	5	5	18	5	18
Insurance	2	3	9	3	3	3	3	10	3	10
Administration	2	3	9	3	3	3	3	10	3	10
Taxes and Other	(9)	3	(2)	2	2	2	2	8	2	8
Total	163	169	635	158	158	160	161	638	164	643
Ebitda										
	275	252	979	254	236	306	294	1,091	291	1,128
Deprec., Deplet., & Amort.	44	41	172	43	40	48	48	179	49	185
Oil Hedging	82	92	274	-	-	-	-	-	-	-
Currency Hedging	(3)	(5)	(13)	(6)	(6)	(6)	(6)	(25)	(6)	(25)
Non-Production	11	16	48	22	22	22	22	88	22	88
Exchange on U.S. Debt	(62)	(50)	(79)	-	-	-	-	-	-	-
Future Income Tax	(7)	10	(27)	-	-	-	-	-	-	-
Ebit										
	210	148	604	195	181	243	230	849	226	879
Interest	24	26	95	27	27	27	27	109	27	109
Net Income (\$mm)										
	186	122	509	168	153	215	203	740	199	770
Per Unit (\$)	2.06	1.34	5.70	1.84	1.68	2.36	2.23	8.11	2.18	8.44
Units (millions)										
	90.0	91.3	89.4	91.3	91.3	91.3	91.3	91.3	91.3	91.3
Cash Flow (\$mm)										
	161	123	575	211	193	263	251	919	248	956
Per Unit (\$)	1.75	1.33	6.43	2.31	2.12	2.89	2.75	10.07	2.71	10.47
Ratios										
Production (\$/bbl)	16.65	16.42	15.19	16.38	17.42	14.50	14.50	15.60	14.22	15.06
Purchased Energy (\$/bbl)	3.95	4.85	4.20	4.35	4.67	3.95	4.16	4.26	4.35	4.27
Prod&Purch En (\$/bbl)	20.60	21.27	19.40	20.73	22.09	18.45	18.66	19.87	18.57	19.32
Crown Royalties & Taxes	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Other Expense (\$/bbl)	(1.11)	0.42	(0.06)	0.28	0.30	0.25	0.25	0.27	0.24	0.26
Ebitda Margin	63%	60%	61%	62%	60%	66%	65%	63%	64%	64%
Deprec., D, & A (\$/bbl)	5.52	5.72	5.56	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Interest Rate (%/yr)										
Cash Flow (\$/unit)	2.78	2.48	9.92	2.48	2.29	3.06	2.93	10.76	2.89	11.17
Distribution	0.50	0.50	2.00	0.50	0.50	0.50	0.50	2.00	0.50	2.00

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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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