

Rating: Buy  
 S&P 500: 1162

## Canadian Oil Sands Trust If You Could Own Only One

<i>Symbol</i>	COSWF	<i>Ebitda Next Twelve Months ending 3/31/06 (US\$mm)</i>	1,320
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	-7
<i>Price (US\$/un)</i>	71.03	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	4/25/05	<i>Adjusted Reserves/Production NTM</i>	20.0
<i>Units (mm)</i>	92	<i>EV/Ebitda</i>	6.2
<i>Market Capitalization (US\$mm)</i>	6,550	<i>PV/Ebitda</i>	7.8
<i>Debt (US\$mm)</i>	1,650	<i>Undeveloped Reserves (%)</i>	0
<i>Enterprise Value (EV) (US\$mm)</i>	8,210	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	39.75
<i>Present Value (PV) (US\$mm)</i>	10,300	<i>Present Value Proven Reserves(US\$/boe)</i>	9.63
<i>Net Present Value (US\$/unit)</i>	94	<i>Present Value Proven Reserves(US\$/mcf)</i>	1.60
<i>Debt/Present Value</i>	0.16	<i>Earnings Next Twelve Months (US\$/un)</i>	11.11
<i>McDep Ratio - EV/PV</i>	0.79	<i>Price/Earnings Next Twelve Months</i>	6
<i>Dividend Yield (%/year)</i>	2.3	<i>Indicated Annual Dividend (US\$/un)</i>	1.62

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 the largest long-life oil resource in North America. We value the stock presently at \$94 a unit assuming a long-term oil price of \$40 a barrel constant real. Our estimate could be US\$136 a unit if long-term oil price were \$50 a barrel. The trust distributes income to unitholders at a rate that may triple by 2007 and last indefinitely. The rate of distribution at that time could be some six times the current level at \$50 a barrel. The next increase may be announced later this year. After recent favorable stock price performance, positive characteristics for continued gains 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.

### Present Value Grows with Oil Price

Two of the most important variables influencing present value are oil price and discount rate. Our current standard estimate of present value of US\$94 per unit presumes a constant real oil price of \$40 a barrel and a real rate of return of 7% per year before adjustment for inflation (see table [Present Value](#)). Yet, the current oil futures price for the next six years is more than \$50 a barrel. The present value of COS would be US\$136, or 45% higher, at \$50 oil. Similarly 7% real is a high historical return. A more normal 5% per year would take present value to US\$175 at \$50 oil.

	<b>Present Value</b> (US\$/unit)		
	<i>Light, Sweet</i>	<i>Real Discount Rate</i>	
<i>Crude Oil</i>		<i>7%/yr</i>	<i>5%/yr</i>
<i>US\$/bbl</i>			
30		52	68
40		94	122
50		136	175
60		179	230

Oil price and discount rate are combined with other critical variables including volumes and costs in a discounted cash flow model. The details are presented

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after the text (see table Present Value of Future Cash Flow). One change from previous projections is that estimated production cost has increased to C\$14/barrel from C\$13.50. We also apply the full Alberta Royalty sooner as the capital costs that can be used to shield royalty are recovered more rapidly at higher oil price.

We have not counted the present value benefits of further volume expansion beyond the increase to 350,000 barrels daily effective in mid 2006. A moderate expansion to about 390,000 is sure to be approved for the remainder of the current decade. A final expansion to more than 500,000 barrels daily may not start until the second half of the next decade.

### **Distribution May Triple by 2007**

As is the case for present value, there is also ample upside potential for the distribution. Our expectation for a tripling by 2007 seems increasingly valid. For the past three years while it has been funding a plant expansion, the trust has held its annualized distribution to C\$2.00 per unit. Assuming oil at US\$50 a barrel, the distribution in 2007 could be more than C\$12 per unit, or more than six times the current level (see table Distribution, 2007).

Distribution capability is suggested by Free Cash Flow determined in a detailed calculation presented after the text (see table Distribution Potential, 2007). Initially, management intends to repay short-term construction debt with free cash flow. We interpreted management comments at the annual meeting on April 25, 2005, that if oil price remains above \$50 a barrel in 2005, a distribution increase might be announced before year end.

<b>Distribution, 2007</b>		
<i>Light, Sweet Crude Oil US\$/bbl</i>	<i>Free Cash Flow C\$/unit    US\$/unit</i>	
30	4.33	3.51
40	8.54	6.93
50	12.75	10.34
60	16.97	13.76

### **Volume Rebounds after Maintenance**

Maintenance reduced first quarter oil volume for the Syncrude facility by about a third. The work has been completed and volume should be sustained at current capacity near 250,000 barrels daily. The details are presented after the text (see table, Next Twelve Months Operating and Financial Estimates).

### **Unusual Opportunity among Income Stocks**

On a McDep Ratio basis, COS is our favorite income stock (see table Rank by McDep Ratio). We should say potential income stock because the current distribution yield of 2.3% per year is low by income stock standards.

Kurt H. Wulff, CFA

**Canadian Oil Sands Trust**  
**Present Value of Future Cash Flow**

Nymex Crude (US\$/b):  PV/unit (US\$):  Discount rate (%/yr):

Year	Volume		Price (US\$/bbl)	Revenue (C\$m)	Prod Cost (C\$/bbl)	Natural Gas (C\$/bbl)	Other & NonOper (C\$/bbl)	Capital Exp. (C\$m)	Royalty (C\$m)	Cash Flow (C\$m)	Disc Factor	Present Value (C\$m)
	Syncrude (mbd)	Trust (mmb)										
Total 2005 through 2034; years ending on 3/31												
		1568	52.17	81805				6810	10373	32993	0.38	12700
2006	252	32.6	56.37	2267	11.57	5.08	2.33	670	18	960	0.97	928
2007	300	38.9	42.00	2014	14.00	3.89	1.80	200	20	1028	0.90	929
2008	350	45.4	42.00	2349	14.00	3.96	1.80	180	318	955	0.84	806
2009	350	45.4	42.00	2349	14.00	4.04	1.80	180	317	952	0.79	751
2010	350	45.4	42.00	2349	14.00	4.12	1.80	180	316	949	0.74	700
2011	350	45.4	42.00	2349	14.00	4.21	1.80	180	315	946	0.69	652
2012	350	45.4	42.00	2349	14.00	4.29	1.80	180	315	944	0.64	608
2013	350	45.4	42.00	2349	14.00	4.38	1.80	180	314	941	0.60	566
2014	350	45.4	42.00	2349	14.00	4.46	1.80	180	313	938	0.56	528
2015	350	45.4	42.00	2349	14.00	4.46	1.80	180	313	938	0.53	493
2016	350	45.4	42.00	2349	14.00	4.46	1.80	180	313	938	0.49	461
2017	350	45.4	42.00	2349	14.00	4.46	1.80	180	313	938	0.46	431
2018	350	45.4	42.00	2349	14.00	4.46	1.80	180	313	938	0.43	402
2019	350	45.4	42.00	2349	14.00	4.46	1.80	180	313	938	0.40	376
2020	350	45.4	42.00	2349	14.00	4.46	1.80	180	313	938	0.37	352
2021	350	45.4	42.00	2349	14.00	4.46	1.80	180	313	938	0.35	329
2022	350	45.4	42.00	2349	14.00	4.46	1.80	180	313	938	0.33	307
2023	350	45.4	42.00	2349	14.00	4.46	1.80	180	313	938	0.31	287
2024	350	45.4	42.00	2349	14.00	4.46	1.80	180	313	938	0.29	268
2025	350	45.4	42.00	2349	14.00	4.46	1.80	180	313	938	0.27	251
2026	350	45.4	42.00	2349	14.00	4.46	1.80	180	313	938	0.25	234
2027	350	45.4	42.00	2349	14.00	4.46	1.80	180	313	938	0.23	219
2028	350	45.4	42.00	2349	14.00	4.46	1.80	180	313	938	0.22	205
2029	350	45.4	42.00	2349	14.00	4.46	1.80	180	313	938	0.20	191
2030	350	45.4	42.00	2349	14.00	4.46	1.80	180	313	938	0.19	179
2031	350	45.4	42.00	2349	14.00	4.46	1.80	180	313	938	0.18	167
2032	350	45.4	42.00	2349	14.00	4.46	1.80	180	313	938	0.17	156
2033	350	45.4	42.00	2349	14.00	4.46	1.80	180	313	938	0.16	146
2034	350	45.4	42.00	2349	14.00	4.46	1.80	180	313	938	0.15	136
2035	350	45.4	42.00	2349	14.00	4.46	1.80	180	313	938	0.14	127
2036	350	45.4	42.00	2349	14.00	4.46	1.80	180	313	938	0.13	119
2037	350	45.4	42.00	2349	14.00	4.46	1.80	180	313	938	0.12	111
2038	350	45.4	42.00	2349	14.00	4.46	1.80	180	313	938	0.11	104
2039	350	45.4	42.00	2349	14.00	4.46	1.80	180	313	938	0.10	97
2040	350	45.4	42.00	2349	14.00	4.46	1.80	180	313	938	0.10	91

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**Canadian Oil Sands Trust**  
**Distribution Potential, 2007**

	<i>Next Twelve Months 3/31/06</i>	<i>Year 2007</i>	<i>Year 2007</i>	<i>Year 2007</i>	<i>Year 2007</i>
<b>Volume</b>					
Syncrude (mbd)	252	350	350	350	350
Trust Oil (mmb)	32.6	45.4	45.4	45.4	45.4
<b>Price</b>					
WTI Cushing (US\$/bbl)	55.96	30.00	40.00	50.00	60.00
Currency (US\$/C\$)	0.81	0.81	0.81	0.81	0.81
WTI Cushing (C\$/bbl)	69.02	37.00	49.33	61.67	74.00
Differential	0.51	2.00	2.00	2.00	2.00
Trust Oil Price (C\$/bbl)	69.53	39.00	51.33	63.67	76.00
AECO Natural Gas (C\$/GJ)	7.54	4.19	5.54	6.89	8.23
<b>Revenue (C\$mm)</b>	<b>2,267</b>	<b>1,769</b>	<b>2,328</b>	<b>2,887</b>	<b>3,447</b>
<b>Expense</b>					
Production	377	635	635	635	635
Purchased Energy	166	128	169	210	252
Other	75	91	91	91	91
Total	618	854	895	936	977
<b>Crown Royalties</b>	<b>18</b>	<b>169</b>	<b>298</b>	<b>428</b>	<b>557</b>
<b>Ebitda</b>	<b>1,631</b>	<b>746</b>	<b>1,135</b>	<b>1,524</b>	<b>1,912</b>
Non-Production	88	50	50	50	50
Interest	107	107	107	107	107
Capital expenditures	670	190	190	190	190
<b>Free Cash Flow (C\$mm)</b>	<b>766</b>	<b>399</b>	<b>788</b>	<b>1,177</b>	<b>1,565</b>
<b>Units (millions)</b>	<b>92.2</b>	<b>92.2</b>	<b>92.2</b>	<b>92.2</b>	<b>92.2</b>
Free Cash Flow (C\$/unit)	8.30	4.33	8.54	12.75	16.97
Free Cash Flow (US\$/unit)	6.73	3.51	6.93	10.34	13.76
<b>Ratios</b>					
Production (C\$/bbl)	11.57	14.00	14.00	14.00	14.00
Purchased Energy (C\$/bbl)	5.08	2.82	3.73	4.64	5.55
Prod&Purch En (C\$/bbl)	16.65	16.82	17.73	18.64	19.55
Other Expense (C\$/bbl)	2.30	2.00	2.00	2.00	2.00
Crown Royalties (C\$/bbl)	0.56	3.72	6.58	9.43	12.29
Ebitda Margin	72%	42%	49%	53%	55%

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**Canadian Oil Sands Trust**  
**Next Twelve Months Operating and Financial Estimates**  
 (Canadian Dollars)

	<i>Q3</i>	<i>Q4</i>	<i>Year</i>	<i>Q1</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>
<b>Volume</b>										
Syncrude (mmb)	22.4	21.0	<b>87.2</b>	14.2	22.0	23.4	23.4	<b>83.0</b>	23.0	<b>91.9</b>
Syncrude (mbd)	243	228	<b>238</b>	157	242	255	255	<b>227</b>	256	<b>252</b>
Days	92	92	<b>366</b>	90	91	92	92	<b>365</b>	90	<b>365</b>
Trust share (%)	35.7	34.3	<b>35.5</b>	38.0	35.5	35.5	35.5	<b>35.9</b>	35.5	<b>35.5</b>
Trust Oil (mmb)	7.97	7.20	<b>31.0</b>	5.39	7.81	8.31	8.31	<b>29.8</b>	8.18	<b>32.6</b>
Trust Oil (mbd)	86.6	78.3	<b>84.6</b>	59.9	85.8	90.3	90.3	<b>81.7</b>	90.9	<b>89.3</b>
<b>Price</b>										
WTI Cushing (US\$/bbl)	43.89	48.31	<b>41.44</b>	49.65	54.19	56.35	56.92	<b>54.28</b>	56.38	<b>55.96</b>
Currency (US\$/C\$)	0.76	0.82	<b>0.77</b>	0.82	0.81	0.81	0.81	<b>0.81</b>	0.81	<b>0.81</b>
WTI Cushing (C\$/bbl)	57.75	58.91	<b>53.73</b>	60.85	66.84	69.50	70.21	<b>66.85</b>	69.53	<b>69.02</b>
Differential	(1.31)	0.97	<b>(0.16)</b>	3.36	2.00			<b>1.72</b>		<b>0.51</b>
Trust Oil Price (C\$/bbl)	56.44	59.88	<b>53.57</b>	64.21	68.84	69.50	70.21	<b>68.57</b>	69.53	<b>69.53</b>
Henry Hub Nat Gas (US\$/m)	5.75	7.10	<b>6.15</b>	6.27	7.23	7.37	7.86	<b>7.18</b>	8.53	<b>7.75</b>
Henry Hub Nat Gas (C\$/mmr)	7.57	8.65	<b>7.97</b>	7.68	8.92	9.08	9.70	<b>8.84</b>	10.52	<b>9.55</b>
AECO Natural Gas (C\$/GJ)	6.19	6.40	<b>6.29</b>	6.45	7.04	7.17	7.65	<b>7.08</b>	8.30	<b>7.54</b>
<b>Revenue (\$mm)</b>										
Oil	450	431	<b>1,658</b>	346	537	578	583	<b>2,045</b>	569	<b>2,267</b>
Transportation & Marketing	(12)	(11)	<b>(45)</b>	(8)	(13)	(14)	(14)	<b>(50)</b>	(14)	<b>(55)</b>
Other	0	(0)	<b>0</b>	0	0	0	0	<b>1</b>		<b>1</b>
Total	438	421	<b>1,614</b>	338	525	564	570	<b>1,996</b>	555	<b>2,213</b>
<b>Expense</b>										
Production	133	118	<b>470</b>	170	87	87	87	<b>431</b>	116	<b>377</b>
Purchased Energy	31	35	<b>130</b>	36	37	40	43	<b>155</b>	46	<b>166</b>
Crown Royalties	4	6	<b>18</b>	3	4	5	5	<b>17</b>	5	<b>18</b>
Insurance	2	3	<b>9</b>	3	2	2	2	<b>9</b>	3	<b>9</b>
Administration	2	3	<b>9</b>	2	2	2	2	<b>6</b>	3	<b>7</b>
Taxes and Other	(9)	3	<b>(2)</b>	2	1	1	1	<b>5</b>	2	<b>5</b>
Total	163	169	<b>635</b>	216	133	136	139	<b>624</b>	173	<b>582</b>
<b>Ebitda</b>										
	275	252	<b>979</b>	122	392	427	430	<b>1,372</b>	381	<b>1,631</b>
Deprec., Deplet., & Amort.	44	41	<b>172</b>	31	47	50	50	<b>178</b>	49	<b>196</b>
Oil Hedging	82	92	<b>274</b>							
Currency Hedging	(3)	(5)	<b>(13)</b>	(5)	(6)	(6)	(6)	<b>(23)</b>	(6)	<b>(24)</b>
Non-Production	11	16	<b>48</b>	12	22	22	22	<b>78</b>	22	<b>88</b>
Exchange on U.S. Debt	(62)	(50)	<b>(79)</b>	5				<b>5</b>		<b>-</b>
Future Income Tax	(7)	10	<b>(27)</b>	(5)				<b>(5)</b>		<b>-</b>
<b>Ebit</b>										
	210	148	<b>604</b>	85	329	362	365	<b>1,140</b>	316	<b>1,371</b>
Interest	24	26	<b>95</b>	26	26	27	27	<b>105</b>	27	<b>107</b>
<b>Net Income (\$mm)</b>										
	186	122	<b>509</b>	59	303	335	338	<b>1,034</b>	289	<b>1,264</b>
Per Unit (\$)	2.06	1.34	<b>5.70</b>	0.64	3.30	3.63	3.65	<b>11.23</b>	3.12	<b>13.70</b>
<b>Units (millions)</b>										
	90.0	91.3	<b>89.4</b>	91.5	91.8	92.1	92.4	<b>92.1</b>	92.7	<b>92.2</b>
<b>Cash Flow (\$mm)</b>										
	161	123	<b>575</b>	91	350	384	387	<b>1,212</b>	338	<b>1,460</b>
Per Unit (\$)	1.75	1.33	<b>6.43</b>	1.02	3.81	4.17	4.19	<b>13.16</b>	3.65	<b>15.83</b>
<b>Ratios</b>										
Production (\$/bbl)	16.65	16.42	<b>15.19</b>	31.53	11.14	10.47	10.47	<b>14.45</b>	14.22	<b>11.57</b>
Purchased Energy (\$/bbl)	3.95	4.85	<b>4.20</b>	6.59	4.74	4.83	5.15	<b>5.21</b>	5.59	<b>5.08</b>
Prod&Purch En (\$/bbl)	20.60	21.27	<b>19.40</b>	38.12	15.88	15.30	15.62	<b>19.67</b>	19.80	<b>16.65</b>
Crown Royalties & Taxes	1%	1%	<b>1%</b>	1%	1%	1%	1%	<b>1%</b>	1%	<b>1%</b>
Other Expense (\$/bbl)	(1.11)	0.42	<b>(0.06)</b>	0.45	0.13	0.12	0.12	<b>0.18</b>	0.24	<b>0.15</b>
Ebitda Margin	63%	60%	<b>61%</b>	36%	75%	76%	76%	<b>69%</b>	69%	<b>74%</b>
Deprec., D,& A (\$/bbl)	5.52	5.72	<b>5.56</b>	5.81	6.00	6.00	6.00	<b>5.96</b>	6.00	<b>6.00</b>
<b>Distribution</b>										
	0.50	0.50	<b>2.00</b>	0.50	0.50	0.50	0.50	<b>2.00</b>	0.50	<b>2.00</b>

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**Rank by McDep Ratio: Market Cap and Debt to Present Value**

	<i>Symbol/</i>	<i>Rating</i>	<i>Price</i> <i>(\$/sh)</i>	<i>25-Apr</i>	<i>Shares</i>	<i>Market</i>	<i>Net</i>	<i>Debt/</i>	<i>McDep</i>
				<i>2005</i>	<i>(mm)</i>	<i>Cap</i>	<i>Present</i>	<i>Present</i>	<i>Ratio</i>
						<i>(\$mm)</i>	<i>Value</i>	<i>Value</i>	
<b>Income</b>									
Kinder Morgan Energy Partners, L.P.	KMP	S3	48.88	155	7,580	15.00	0.53	2.05	
Kinder Morgan Management, LLC	KMR	S3	44.98	55	2,470	15.00	0.53	1.93	
Pengrowth Energy Trust	PGH		20.84	136	2,830	16.00	0.24	1.23	
San Juan Basin Royalty Trust	SJT		38.16	47	1,780	32.00	-	1.19	
Enerplus Resources Fund	ERF		37.04	104	3,850	32.00	0.16	1.13	
Canadian Oil Sands Trust (US\$)	COSWF	B	71.03	92	6,550	94.00	0.16	0.79	
<i>Total or Median</i>						<i>25,100</i>	<i>0.20</i>	<i>1.21</i>	

B = Buy, S2 = Short half unlevered position, S3 = Short quarter unlevered position  
 McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses

**More Analysis:** Topics not fully covered in the latest Independent Stock Idea may have been discussed in previous written analyses archived on [www.mcdep.com](http://www.mcdep.com).

**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 total return less than inflation.

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