Rating: Buy
S&P 500: 1205

Canadian Oil Sands Trust
Free (Cash Flow) at Last

Symbol	COSWF	*Ebitda Next Twelve Months ending 6/30/06 (US$mm)*	1,340
Rating	Buy	*North American Natural Gas/Ebitda (%)*	-7
Price (US$/un)	75.54	*Natural Gas and Oil Production/Ebitda (%)*	100
Pricing Date	7/5/05	*Adjusted Reserves/Production NTM*	20.0
Units (mm)	93	*EV/Ebitda*	6.4
Market Capitalization (US$mm)	6,990	*PV/Ebitda*	7.7
Debt (US$mm)	1,640	*Undeveloped Reserves (%)*	0
Enterprise Value (EV) (US$mm)	8,630	*Natural Gas and Oil Ebitda (US$/boe)*	40.63
Present Value (PV) (US$mm)	10,300	*Present Value Proven Reserves(US$/boe)*	9.63
Net Present Value (US$/unit)	94	*Present Value Proven Reserves(US$/mcfe)*	1.60
Debt/Present Value	0.16	*Earnings Next Twelve Months (US$/un)*	11.31
McDep Ratio - EV/PV	0.83	*Price/Earnings Next Twelve Months*	7
Dividend Yield (%/year)	2.1	*Indicated Annual Dividend (US$/un)*	1.61

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

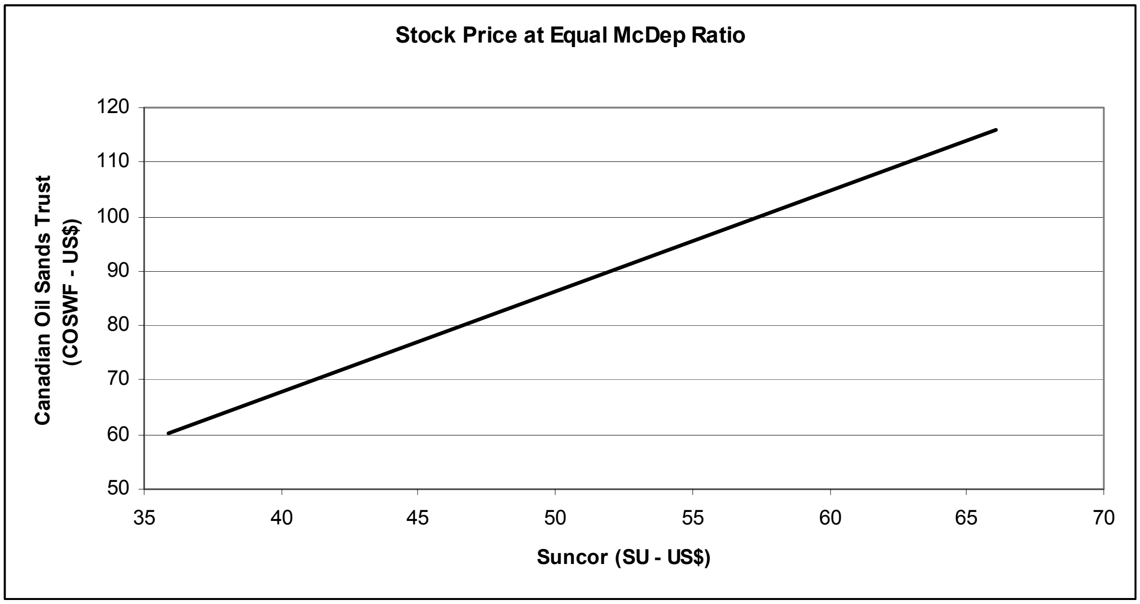
We continue to recommend current purchase of the units of **Canadian Oil Sands Trust (COSWF)** for rising cash distributions from the largest long-life oil resource in North America. A McDep Ratio below that for sister oil sands producer, buy-recommended **Suncor (SU)**, supports accelerated accumulation of COSWF units. Meanwhile, after several years of constant distributions during construction, an increase in distribution may be announced soon, perhaps for the final payment of 2005 to be made at the end of November. A rapid buildup in payments could reach the annual rate of US$14 a unit in the third quarter of 2006 presuming the current price for oil, full royalty to Alberta and smooth operations at the newly expanded capacity of 350,000 barrels daily for the Syncrude oil sands facility. In that case a stock price of US$230 a unit would offer a 6% annual distribution yield. Such an optimistic suggestion is subject to obvious risks including oil price and operating reliability.

Oil Sands Sisters Valued Disparately

The two largest and most concentrated stock market investments in oil sands are COS with a stock market cap of about US$7 billion and buy-recommended **Suncor (SU)** with a stock market cap of about $23 billion. For practical purposes Suncor is concentrated entirely on oil sands and COS is an undisputed pure play. The difference is that SU owns all of the Suncor oil sands facility while COS owns 35.5% of Syncrude, a slightly larger facility than Suncor.

With its larger capitalization, greater liquidity and New York Stock Exchange listing, Suncor stock is better-known and more widely held. That is important to large institutional investors and to hedge funds that trade large positions. For long-term, moderate-size investors there may be greater opportunity currently in COS.

The stock market values Suncor at a McDep Ratio of 0.94 compared to 0.83 for Syncrude as represented in the stock of COS. The recent sharp gain in Suncor stock has not been matched yet by COS as the McDep Ratios were nearly equal in late May. Assuming equal McDep Ratios the recent stock price of US$50 for Suncor implies about US$87 for COS, instead of US$76 (see chart Stock Price at Equal McDep Ratio).



Our estimate of the present value of Syncrude, also owned by other buy-recommended companies including 25% by **Imperial Oil (IMO)**, 12% by **Petro-Canada (PCZ)**, and 9% by **ConocoPhillips (COP),** is US$29 billion. The total present value of Suncor is currently about US$27.7 billion. In each case, present value corresponds to a long-term oil price of $40 a barrel and a 7% per year real return.

Syncrude is ahead of Suncor on volume. Suncor sold about 148,000 barrels daily (bd) in the first quarter of 2005 while Syncrude produced 157,000 bd. Suncor will likely not be near capacity of 250,000 bd until the fourth quarter while Syncrude is back near that level now. Suncor has begun expansion to achieve 350,000 bd for the full year 2009. Syncrude has finished most of the spending to achieve 350,000 bd for the full year 2007.

Both plants produce a light, sweet product that is protected from wide discounts for heavy, sour crude oil. Suncor has upgrading at the mine and in its refineries in Ontario and Colorado. Syncrude does all of its upgrading on site.

Suncor owns natural gas reserves, while Syncrude does not. Suncor's incremental raw material comes from an in situ process that requires more natural gas. Syncrude's incremental raw material comes from a rich surface mine that is more energy efficient.

Suncor may report lower costs at the upgrader, but its product at that stage is lower quality. Suncor's accounting may be less conservative as it capitalizes some expenditures that Syncrude expenses. Suncor plant personnel are unionized, Syncrude's are not. Construction workers are unionized in both cases.

Trust Form Superior to Corporate Form

Though it appears COS is valued at a discount to Suncor, the trust form is normally worth a premium. In fact, Suncor may find it attractive to convert its oil sands assets to a trust in the future.

It is the trust form of ownership with its high rate of income distribution that justifies our suggestion that future distributions might be capitalized at a low 6%. There are popular energy income stocks in the U.S. that achieve that surprising level of recognition.

Free Cash Flow Building

Record futures prices for oil point to higher revenue. Most of the trust's US$2.2 billion expansion capital commitment has now been made. Construction is practically complete. The combination of higher revenues and less capital spending contributes free cash flow available for debt repayment and distributions.

At the current rate of distributions, the free cash flow remaining for debt repayment would be some C$900 from March 31, 2005 through June 30, 2006 (see table Free Cash Flow) . That is more than the C$600 million reduction management wants to achieve to get debt down to C$1.2 billion. Management need not wait until that happens to increase the distribution.

Canadian Oil Sands Trust
Free Cash Flow
(Canadian Dollars)

	Q2E	*Q3E*	*Q4E*	*Q1E*	*Q2E*
	6/30/05	*9/30/05*	*12/31/05*	*3/31/06*	*6/30/06*
Cash Flow ($mm)	304	377	388	341	389
Capital Expenditures	220	180	120	50	50
Free Cash Flow	84	197	268	291	339
Distributions	46	46	46	46	47
Debt Repayment	38	151	222	245	293
Cumulative Debt Repayment	38	189	411	655	948

Volume Ramp Early 2006

Operating reliability is perhaps the next most important variable after oil price. Management's latest presentation cautiously sketches the 100,000 barrels daily volume gain being achieved over three years from 2006 to 2008. While past industry experience with the three operating oil sands mining projects suggests that we allow for unfavorable surprises, our projections take the key dates at face value.

We understand that the expansion would be completely constructed at the end of this year. We interpret that to mean that volume can start increasing to offset the negative volume impact of expected maintenance in the first quarter of next year. Yet our projections for the second quarter of 2006 do not include further gains (see table Next Twelve Months Operating and Financial Estimates).

Year-to-date volume through June has been under expected levels from time to time. Nonetheless June volume was at capacity of 250,000 barrels daily. We take that as the rate for the next twelve months.

We further understand that the expanded capacity would be "in-service" at mid 2006. While we have not yet detailed any quarterly estimates after mid 2006, we assume operation at full capacity for the year ended 6/30/2007 in our discounted cash flow analysis (see table Present Value of Future Cash Flow).

Tax Regime Stable

This is Alberta, Canada in 2005, not Venezuela under Chavez, or Canada in 1985, nor the U.S. in 1975. Billions of dollars have been invested on the basis of the Alberta royalty of 25% after payout. We do not expect that to change.

The trust had deductions to carry forward for reducing royalty of about C$500 million at the beginning of 2005. About C$700 million is being invested in 2006. The total deductions would about offset earnings before interest and taxes for 2005 as now projected. Beginning in 2006 the full 25% royalty would likely be due.

For a transition period of the first half of the 2006 we are assuming that any royalty increase would be offset by a production increase. There is no cause and effect, but there is also ambiguity in the buildup of both volume and royalty.

Oil Price and Discount Rate Impact Present Value

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 $58 a barrel. Coincidentally, capitalizing a US$14 distribution at 6% points to the same $230 a unit value implied by $60 oil and a 5% real discount rate.

Present Value
(US$/unit)

Light, Sweet Crude Oil US$/bbl	*Real Discount Rate 7%/yr*	*5%/yr*
30	52	68
40	94	122
50	136	175
60	177	230

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 deliver additional volumes until the second half of the next decade.

Oil Price Impacts Distribution

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$60 a barrel, the distribution in 2007 could be almost US$14 per unit, or seven times the current level. Distribution capability is suggested by Free Cash Flow determined in a detailed calculation (see table Distribution Potential, 2007).

Indexing on the Way

Income trusts are scheduled to be added to the Toronto Stock Exchange Composite Index in two stages as announced by Standard & Poor's on May 18. Half of the weighting will be added at the end of the September quarter and the other half at the end of the March 2006 quarter. Suncor, for example, has long been in the index. COS will join the index in two stages along with other income trusts.

The addition or deletion of a stock from an index prompts the buying or selling of shares by funds that attempt to replicate the index. Though seemingly artificial and mindless, the impact can be significant on stock price of the affected companies.

U.S. Listing Depends on Ownership Resolution

We have suggested that eventually the trust would seek to have its shares listed in the U.S. Before that happens there needs to be final guidance from the Canadian government as to the ultimate resolution of the ownership issue. Enforcement of a possible 50% limit on ownership of trusts by non-Canadians has been postponed for now while the issue is further deliberated.

The cost of ownership restrictions is illustrated by the two classes of units created by **Pengrowth Energy Trust (PGH)**. The units restricted to Canadian ownership currently trade at two-thirds the price of the units that can be owned by all and are listed in the U.S. That is a powerful indication of the distorting impact of artificial restrictions and the value that could be created by a freer flow of capital.

Ownership restrictions are a potential issue for future purchasers of COS, but not an immediate limitation. In the first quarter report, management estimated non-Canadian ownership at about 45%. Any index fund buying over the coming months is likely to be Canadian-sourced. It may also be possible for active traders outside Canada to invest in derivatives issued by Canadian institutions that track the price of a security whose trading is restricted.

Acquisition Potential

The natural acquisition for COS is a partner's interest in Syncrude. We would expect such a transaction to be accretive as it was when COS acquired **Encana (ECA)**'s share two years ago. Such a deal could happen at any time, but becomes more likely should the McDep Ratio for COS move well above that for operating companies. We are not there yet. Meanwhile, a low McDep Ratio suggests that COS is a better target than acquirer.

Kurt H. Wulff, CFA

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

	Q4 *12/30/04*	***Year*** ***2004***	*Q1* *3/31/05*	*Q2E* *6/30/05*	*Q3E* *9/30/05*	*Q4E* *12/31/05*	***Year*** ***2005E***	*Q1E* *3/31/06*	*Q2E* *6/30/06*	***Next Twelve Months*** ***6/30/06***
Volume										
Syncrude (mmb)	21.0	**87.2**	14.2	21.5	23.0	23.0	**81.7**	22.5	22.8	**91.3**
Syncrude (mbd)	228	**238**	157	236	250	250	**224**	250	250	**250**
Days	92	**366**	90	91	92	92	**365**	90	91	**365**
Trust share (%)	34.3	**35.5**	38.0	35.5	35.5	35.5	**35.9**	35.5	35.5	**35.5**
Trust Oil (mmb)	7.20	**31.0**	5.39	7.62	8.16	8.16	**29.3**	7.99	8.07	**32.4**
Trust Oil (mbd)	78.3	**84.6**	59.9	83.8	88.7	88.7	**80.4**	88.7	88.7	**88.7**
Price										
WTI Cushing (US$/bbl)	48.31	**41.44**	49.65	53.02	59.10	60.73	**55.63**	61.05	60.69	**60.39**
Currency (US$/C$)	0.82	**0.77**	0.82	0.80	0.80	0.80	**0.81**	0.80	0.80	**0.80**
WTI Cushing (C$/bbl)	58.91	**53.73**	60.85	65.90	73.47	75.48	**68.92**	75.88	75.44	**75.07**
Differential	0.97	**(0.16)**	3.36	2.00			**1.96**			**(0.01)**
Trust Oil Price (C$/bbl)	59.88	**53.57**	64.21	67.90	73.47	75.48	**70.88**	75.88	75.44	**75.06**
Henry Hub Nat Gas (US$/mmbtu	7.10	**6.15**	6.27	6.76	7.12	7.88	**7.01**	8.80	7.73	**7.88**
Henry Hub Nat Gas (C$/mmbtu)	8.65	**7.97**	7.68	8.40	8.85	9.79	**8.68**	10.94	9.61	**9.80**
AECO Natural Gas (C$/GJ)	6.40	**6.29**	6.45	6.63	6.98	7.73	**6.95**	8.63	7.69	**7.76**
Revenue ($mm)										
Oil	431	**1,658**	346	518	600	616	**2,080**	606	609	**2,431**
Transportation & Marketing	(11)	**(45)**	(8)	(13)	(15)	(15)	**(50)**	(15)	(15)	**(59)**
Other	(0)	**0**	0	0	0	0	**1**		-	**1**
Total	421	**1,614**	338	505	585	601	**2,030**	591	594	**2,372**
Expense										
Production	118	**470**	170	113	113	113	**509**	143	113	**482**
Purchased Energy	35	**130**	36	37	42	46	**160**	50	37	**175**
Crown Royalties	6	**18**	3	5	6	6	**21**	6	6	**24**
Insurance	3	**9**	3	2	2	2	**9**	3	2	**9**
Administration	3	**9**	2	2	2	2	**6**	3	3	**8**
Taxes and Other	3	**(2)**	2	1	1	1	**5**	2	1	**5**
Total	169	**635**	216	160	165	170	**711**	207	162	**703**
Ebitda	252	**979**	122	346	420	432	**1,320**	385	433	$\boxed{\textbf{1,669}}$
Deprec., Deplet., & Amort.	41	**172**	31	46	49	49	**175**	48	48	**194**
Oil Hedging	92	**274**								
Currency Hedging	(5)	**(13)**	(5)	(6)	(6)	(6)	**(23)**	(6)	(6)	**(23)**
Non-Production	16	**48**	12	22	22	22	**78**	22	22	**88**
Exchange on U.S. Debt	(50)	**(79)**	5				**5**			**-**
Future Income Tax	10	**(27)**	(5)				**(5)**			**-**
Ebit	148	**604**	85	284	355	366	**1,089**	321	368	**1,410**
Interest	26	**95**	26	26	27	27	**105**	27	27	**109**
Net Income ($mm)	122	**509**	59	258	328	339	**984**	293	341	**1,301**
Per Unit ($)	1.34	**5.70**	0.64	2.81	3.56	3.67	**10.68**	3.16	3.66	**14.06**
Units (millions)	91.3	**89.4**	91.5	91.8	92.1	92.4	**92.1**	92.7	93.0	**92.5**
Cash Flow ($mm)	123	**575**	91	304	377	388	**1,159**	341	389	**1,495**
Per Unit ($)	1.33	**6.43**	1.02	3.31	4.09	4.20	**12.58**	3.68	4.18	**16.16**
Ratios										
Production ($/bbl)	16.42	**15.19**	31.53	14.82	13.84	13.84	**17.35**	17.91	14.00	**14.88**
Purchased Energy ($/bbl)	4.85	**4.20**	6.59	4.85	5.12	5.66	**5.47**	6.32	4.58	**5.42**
Prod&Purch En ($/bbl)	21.27	**19.40**	38.12	19.67	18.96	19.50	**22.81**	24.23	18.58	**20.30**
Crown Royalties & Taxes	1%	**1%**	1%	1%	1%	1%	**1%**	1%	1%	**1%**
Other Expense ($/bbl)	0.42	**(0.06)**	0.45	0.13	0.12	0.12	**0.18**	0.25	0.12	**0.15**
Ebitda Margin	60%	**61%**	36%	68%	72%	72%	**65%**	65%	73%	**70%**
Deprec., D,& A ($/bbl)	5.72	**5.56**	5.81	6.00	6.00	6.00	**5.96**	6.00	6.00	**6.00**
Distribution	0.50	**2.00**	0.50	0.50	0.50	0.50	**2.00**	0.50	0.50	**2.00**

Please see disclosures on the final page.

Canadian Oil Sands Trust
Present Value of Future Cash Flow

Nymex Crude (US$/b):	40	PV/unit (US$):	94	Discount rate (%/yr):	7.0

	Volume											
	Syncrude	Trust	Price	Revenue	Prod Cost	Natural Gas	Other & NonOper	Capital Exp.	Royalty	Cash Flow	Disc	Present 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 2040; years ending on 6/30												
		1574	52.68	82930				6790	10839	33443	0.39	12900
2006	250	32.4	60.39	2431	14.88	5.42	2.49	670	24	998	0.97	965
2007	350	45.4	42.00	2368	14.00	3.88	1.80	180	324	971	0.90	878
2008	350	45.4	42.00	2368	14.00	3.95	1.80	180	323	969	0.84	818
2009	350	45.4	42.00	2368	14.00	4.03	1.80	180	322	966	0.79	762
2010	350	45.4	42.00	2368	14.00	4.11	1.80	180	321	963	0.74	711
2011	350	45.4	42.00	2368	14.00	4.19	1.80	180	320	961	0.69	662
2012	350	45.4	42.00	2368	14.00	4.28	1.80	180	319	958	0.64	617
2013	350	45.4	42.00	2368	14.00	4.36	1.80	180	318	955	0.60	575
2014	350	45.4	42.00	2368	14.00	4.45	1.80	180	317	952	0.56	536
2015	350	45.4	42.00	2368	14.00	4.45	1.80	180	317	952	0.53	501
2016	350	45.4	42.00	2368	14.00	4.45	1.80	180	317	952	0.49	468
2017	350	45.4	42.00	2368	14.00	4.45	1.80	180	317	952	0.46	437
2018	350	45.4	42.00	2368	14.00	4.45	1.80	180	317	952	0.43	409
2019	350	45.4	42.00	2368	14.00	4.45	1.80	180	317	952	0.40	382
2020	350	45.4	42.00	2368	14.00	4.45	1.80	180	317	952	0.37	357
2021	350	45.4	42.00	2368	14.00	4.45	1.80	180	317	952	0.35	334
2022	350	45.4	42.00	2368	14.00	4.45	1.80	180	317	952	0.33	312
2023	350	45.4	42.00	2368	14.00	4.45	1.80	180	317	952	0.31	291
2024	350	45.4	42.00	2368	14.00	4.45	1.80	180	317	952	0.29	272
2025	350	45.4	42.00	2368	14.00	4.45	1.80	180	317	952	0.27	254
2026	350	45.4	42.00	2368	14.00	4.45	1.80	180	317	952	0.25	238
2027	350	45.4	42.00	2368	14.00	4.45	1.80	180	317	952	0.23	222
2028	350	45.4	42.00	2368	14.00	4.45	1.80	180	317	952	0.22	208
2029	350	45.4	42.00	2368	14.00	4.45	1.80	180	317	952	0.20	194
2030	350	45.4	42.00	2368	14.00	4.45	1.80	180	317	952	0.19	181
2031	350	45.4	42.00	2368	14.00	4.45	1.80	180	317	952	0.18	170
2032	350	45.4	42.00	2368	14.00	4.45	1.80	180	317	952	0.17	158
2033	350	45.4	42.00	2368	14.00	4.45	1.80	180	317	952	0.16	148
2034	350	45.4	42.00	2368	14.00	4.45	1.80	180	317	952	0.15	138
2035	350	45.4	42.00	2368	14.00	4.45	1.80	180	317	952	0.14	129
2036	350	45.4	42.00	2368	14.00	4.45	1.80	180	317	952	0.13	121
2037	350	45.4	42.00	2368	14.00	4.45	1.80	180	317	952	0.12	113
2038	350	45.4	42.00	2368	14.00	4.45	1.80	180	317	952	0.11	106
2039	350	45.4	42.00	2368	14.00	4.45	1.80	180	317	952	0.10	99
2040	350	45.4	42.00	2368	14.00	4.45	1.80	180	317	952	0.10	92

Canadian Oil Sands Trust
Distribution Potential, 2007

	Next Twelve Months 6/30/06	*Year 2007*	*Year 2007*	*Year 2007*	*Year 2007*
Volume					
Syncrude (mbd)	250	350	350	350	350
Trust Oil (mmb)	32.4	45.4	45.4	45.4	45.4
Price					
WTI Cushing (US$/bbl)	60.39	30.00	40.00	50.00	60.00
Currency (US$/C$)	0.80	0.80	0.80	0.80	0.80
WTI Cushing (C$/bbl)	75.07	37.29	49.72	62.15	74.58
Differential	(0.01)	2.00	2.00	2.00	2.00
Trust Oil Price (C$/bbl)	75.06	39.29	51.72	64.15	76.58
AECO Natural Gas (C$/GJ)	7.76	4.01	5.29	6.58	7.86
Revenue (C$mm)	2,431	1,782	2,346	2,909	3,473
Expense					
Production	482	635	635	635	635
Purchased Energy	175	127	168	208	249
Other	80	91	91	91	91
Total	738	853	893	934	975
Crown Royalties	24	175	306	436	567
Ebitda	1,669	754	1,147	1,539	1,931
Non-Production	88	50	50	50	50
Interest	109	109	109	109	109
Capital expenditures	400	180	180	180	180
Free Cash Flow (C$mm)	1,072	416	808	1,201	1,593
Units (millions)	92.5	92.5	92.5	92.5	92.5
Free Cash Flow (C$unit)	11.59	4.49	8.73	12.97	17.21
Free Cash Flow (US$unit)	9.32	3.62	7.03	10.44	13.85
Ratios					
Production (C$/bbl)	14.88	14.00	14.00	14.00	14.00
Purchased Energy (C$/bbl)	5.42	2.80	3.70	4.59	5.49
Prod&Purch En (C$/bbl)	20.30	16.80	17.70	18.59	19.49
Other Expense (C$/bbl)	2.48	2.00	2.00	2.00	2.00
Crown Royalties (C$/bbl)	0.75	3.85	6.74	9.62	12.50
Ebitda Margin	69%	42%	49%	53%	56%

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.

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.

Disclaimer and Disclosure: This analysis was prepared by Kurt Wulff doing business as McDep Associates. The firm used sources and data believed to be reliable, but makes no representation as to their accuracy or completeness. This analysis is intended for informational purposes and is not a solicitation to buy or sell a security. Past performance is no guarantee of future results.

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