

Rating: Buy
 S&P 500: 1265

Canadian Oil Sands Trust Volume Affirmed

<i>Symbol</i>	COSWF	<i>Ebitda Next Twelve Months ending 12/31/06 (US\$mm)</i>	1,320
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	-9
<i>Price (US\$/un)</i>	125.94	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	1/25/06	<i>Adjusted Reserves/Production NTM</i>	20.0
<i>Units (mm)</i>	93	<i>EV/Ebitda</i>	10.1
<i>Market Capitalization (US\$mm)</i>	11,730	<i>PV/Ebitda</i>	10.8
<i>Debt (US\$mm)</i>	1,660	<i>Undeveloped Reserves (%)</i>	0
<i>Enterprise Value (EV) (US\$mm)</i>	13,390	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	36.55
<i>Present Value (PV) (US\$mm)</i>	14,300	<i>Present Value Proven Reserves(US\$/boe)</i>	13.36
<i>Net Present Value (US\$/unit)</i>	136	<i>Present Value Proven Reserves(US\$/mcfe)</i>	2.23
<i>Debt/Present Value</i>	0.12	<i>Earnings Next Twelve Months (US\$/un)</i>	9.72
<i>McDep Ratio - EV/PV</i>	0.93	<i>Price/Earnings Next Twelve Months</i>	13
<i>Dividend Yield (%/year)</i>	2.8	<i>Indicated Annual Dividend (US\$/un)</i>	3.48

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.

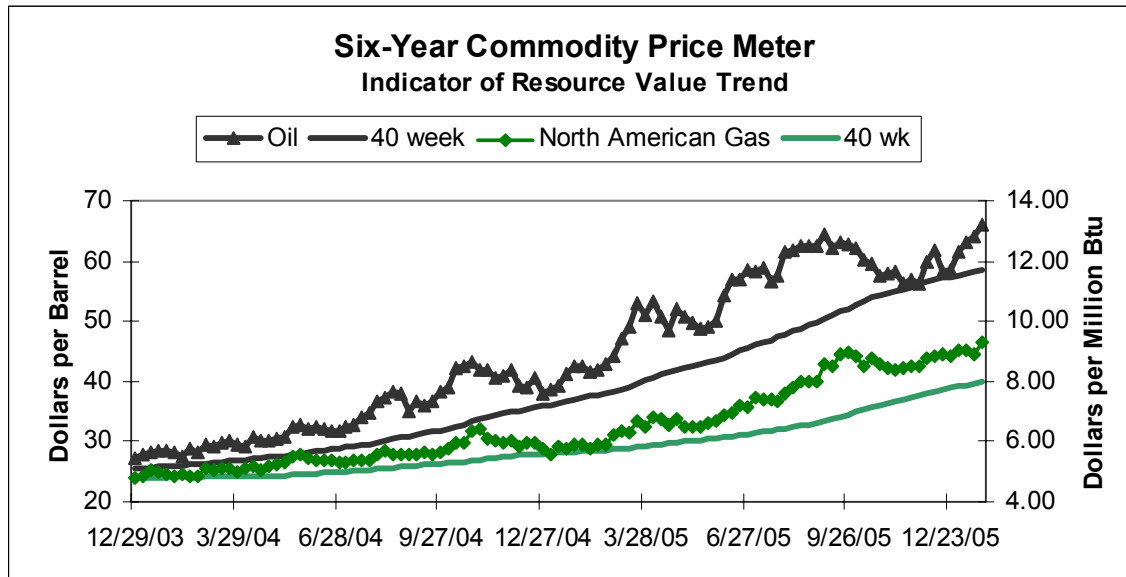
Summary and Recommendation

Reporting fourth quarter results, management of buy-recommended **Canadian Oil Sands Trust (COSWF)** affirmed its expectation of 30% volume growth in 2006 as a 50% capacity expansion starts up. Management also gave its first estimate of the impact of major maintenance in reducing first quarter volume below normal. Estimates of natural gas consumption are higher than previously. Our estimate of levered cash flow reconciles with management's new guidance after adjusting for recent futures prices and exchange rates. Levered quarterly cash flow of C\$4.50 a unit in the second half of the year indicates a potential quadrupling of the current C\$1 a unit distribution. While maintenance capital reduces distribution capability from that level, operations nearer full capacity next year would increase distribution capability. The stock's weighting in the Toronto Stock Exchange index would be doubled on the close on March 17 and a stock split is likely to be approved at the annual meeting on April 25. Aside from pure representation in oil, the stock offers the added double benefit of a rapidly rising cash payout from production that would last practically forever.

McDep Ratio Relates Oil Price to Opportunity

A McDep Ratio below 1.0 tells us that COS's market cap and debt, or enterprise value, is less than the estimated present value of its energy resources assuming a long-term real price of \$50 a barrel for Light, Sweet Crude Oil. Meanwhile six-year oil futures are about \$65 a barrel. Momentum has been positive for more than three years as the current quote stays above the 40-week average (see chart [Six-Year Commodity Price Meter](#)). Six-year oil has tripled in the four years we have been calculating it on a weekly basis. We do not need further gains in oil price to make money in buy recommendations. Yet our vision of \$150 oil in 2010 implies additional scope to exceed common expectations.

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COS ranks low among peer stocks by McDep Ratio (see table [Rank by McDep Ratio](#)). The rank is in descending order to suggest “buy low, sell high”. Aside from the fundamental appreciation potential we outlined above, a McDep Ratio of 1.0 is an indication of takeover value. The McDep Ratio of buy-recommended **Burlington Resources (BR)** increased to 1.0 immediately after buy-recommended **ConocoPhillips (COP)** announced its takeover offer. Yet oil price was lower when COP made its move. Considering the current trend in oil price we may have another round of upward revisions in our present value estimate that would have the effect of lowering McDep Ratios.

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

				Price (\$/sh)		Market	Net	Debt/	
	Symbol/	Rating	25-Jan	Shares	Cap	Present	Present	McDep	
			2006	(mm)	(\$mm)	Value	Value	Ratio	
Income									
Kinder Morgan Energy Partners, L.P.	KMP	S3	50.39	164	8,250	15.00	0.55	2.07	
Kinder Morgan Management, LLC	KMR	S3	46.85	58	2,690	15.00	0.55	1.96	
Penn West Energy Trust	PWTFF	B	36.80	179	6,600	28.00	0.15	1.27	
Pengrowth Energy Trust	PGH		24.58	159	3,910	20.00	0.16	1.19	
Enerplus Resources Fund	ERF		51.41	110	5,660	42.00	0.14	1.19	
San Juan Basin Royalty Trust	SJT		45.02	47	2,100	40.00	-	1.13	
Canadian Oil Sands Trust (US\$)	COSWF	B	125.94	93	11,730	136.00	0.12	0.93	
	<i>Total or Median</i>				<i>40,900</i>		<i>0.15</i>	<i>1.19</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

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Low Cash Flow Multiple

Unlevered cash flow multiples for most peers attest to low valuation (see table [Rank by EV/Ebitda](#)). Multiples may be low because investors may be uncertain how long cash flow will last at current levels. That depends on commodity price and reserve life. Cash flow estimated for the next twelve months, Ebitda NTM, reflects latest futures prices. Reserve life is measured as adjusted reserves divided by next twelve months production. Longer reserve life justifies higher unlevered cash flow multiple whether it be compared to our estimate of present value or to the market measure of enterprise value

Rank by EV/Ebitda: Enterprise Value to Earnings Before Interest, Tax, Deprec.

			Price (\$/sh) 25-Jan 2006	Adjstd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S3	50.39		7.9	16.4	25	6.4
Kinder Morgan Management, LLC	KMR	S3	46.85		7.9	15.5	23	6.8
San Juan Basin Royalty Trust	SJT		45.02	12.2	9.4	10.6	12	8.6
Canadian Oil Sands Trust (US\$)	COSWF	B	125.94	20.0	10.8	10.1	13	2.8
Enerplus Resources Fund	ERF		51.41	8.6	5.5	6.5	10	8.5
Pengrowth Energy Trust	PGH		24.58	7.6	5.4	6.4	9	10.6
Penn West Energy Trust	PWTFF	B	36.80	8.0	4.7	6.0	9	8.8
	<i>Median</i>			8.6	7.9	10.1	12	8.5

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended December 31, 2006; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

Concentration on Oil

Each oil and gas stock has its own unique mix of energy resources (see table [Business Segments](#)). COS is concentrated completely on oil. Alternatively, we could show concentration of 109% on oil offset by -9% on natural gas. Should natural gas become increasingly valuable as we believe it will, COS has vast stockpiles of petroleum coke that could be gasified as a substitute. A natural gas price high enough to justify coke gasification would likely be associated with higher oil price.

While we hold our present value estimates steady for months, prices of peer stocks may react in the short-term depending on relative changes in expectations for natural gas and oil. We recommend that investors have both natural gas and oil representation.

Home Country and Business Segments

	<i>Symbol/ Rating</i>	<i>Non- U.S. Domicile</i>	<i>North Amer. Natural Gas (%)</i>	<i>Rest of World Natural Gas (%)</i>	<i>Oil Prod'n (%)</i>	<i>Down- stream (%)</i>	<i>Total Present Value (US\$m)</i>	
Income								
Canadian Oil Sands Trust (USS)	COSWF	B	Canada	-	-	100	-	14,300
Penn West Energy Trust	PWTFF	B	Canada	42	-	58	-	5,900
Enerplus Resources Fund	ERF		Canada	58	-	42	-	5,360
Pengrowth Energy Trust	PGH		Canada	42	-	58	-	3,800
San Juan Basin Royalty Trust	SJT			100	-	-	-	1,860
			<i>Median</i>	42	-	58	-	31,200

Futures Prices Propel Estimated Cash Flow by Quarter

Cash flow for the next year is projected from a base through the latest reported quarter (see table [Next Twelve Months Operating and Financial Estimates](#)). Company disclosures provide the clues for future volumes and costs as well as geographic and quality differences in price.

Kurt H. Wulff, CFA

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

	<i>Q4</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Next Twelve Months</i>
	<i>12/30/04</i>	<i>9/30/05</i>	<i>12/31/05</i>	<i>2005E</i>	<i>3/31/06</i>	<i>6/30/06</i>	<i>9/30/06</i>	<i>12/31/06</i>	<i>12/31/06</i>
Volume									
Syncrude (mmb)	21.0	21.9	20.8	78.1	22.5	22.8	27.6	29.4	102.3
Syncrude (mbd)	228	238	226	214	250	250	300	320	280
Days	92	92	92	365	90	91	92	92	365
Trust share (%)	34.3	36.1	35.5	35.7	35.5	35.5	35.5	35.5	35.5
Trust Oil (mmb)	7.20	7.91	7.37	27.9	7.99	8.07	9.80	10.45	36.3
Trust Oil (mbd)	78.3	85.9	80.2	76.5	88.7	88.7	106.5	113.6	99.5
Price									
WTI Cushing (US\$/bbl)	48.31	62.52	59.99	56.30	65.34	68.01	68.66	68.98	67.75
Currency (US\$/C\$)	0.82	0.83	0.87	0.83	0.87	0.87	0.87	0.87	0.87
WTI Cushing (C\$/bbl)	58.91	75.14	69.13	67.78	75.29	78.37	79.12	79.49	78.07
Differential	0.97	2.92		2.89					0.15
Trust Oil Price (C\$/bbl)	59.88	78.06	69.13	70.67	75.29	78.37	79.12	79.49	78.22
Henry Hub Nat Gas (US\$/mmb)	7.10	8.56	13.00	8.65	9.78	9.18	9.39	10.20	9.64
Henry Hub Nat Gas (C\$/mmbtu)	8.65	10.29	14.98	10.41	11.27	10.57	10.82	11.75	11.10
AECO Natural Gas (C\$/GJ)	6.40	8.31	12.10	8.45	9.10	8.58	8.78	9.54	9.00
Revenue (\$mm)									
Oil	431	617	510	1,972	601	633	775	831	2,840
Transportation & Marketing	(11)	(11)	(9)	(40)	(11)	(11)	(14)	(15)	(51)
Other	(0)	0	0	1	-	-	-	-	-
Total	421	606	501	1,932	591	621	761	816	2,789
Expense									
Production	118	138	138	559	143	129	157	167	596
Purchased Energy	35	49	67	193	55	37	46	53	191
Crown Royalties	6	6	5	19	6	103	128	138	375
Insurance	3	2	2	8	3	2	2	2	9
Administration	3	2	2	9	3	3	3	3	10
Taxes and Other	3	2	2	7	2	1	1	1	5
Total	169	198	216	795	211	274	337	363	1,185
Ebitda									
Deprec., Deplet., & Amort.	41	48	44	170	48	48	59	63	218
Oil Hedging	92								
Currency Hedging	(5)	(6)	(8)	(24)	(8)	(8)	(8)	(8)	(31)
Non-Production	16	20	20	73	22	22	22	22	88
Exchange on U.S. Debt	(50)	(61)		(41)					-
Future Income Tax	10	(8)		(13)					-
Ebit	148	414	229	972	318	285	352	375	1,329
Interest	26	26	26	105	23	23	23	23	92
Net Income (\$mm)	122	388	202	867	295	262	329	352	1,237
Per Unit (\$)	1.34	4.13	2.19	9.34	3.18	2.82	3.53	3.77	13.29
Units (millions)	91.3	92.0	92.3	92.8	92.6	92.9	93.2	93.5	93.1
Cash Flow (\$mm)	123	368	247	984	343	310	387	415	1,455
Per Unit (\$)	1.33	3.96	2.67	10.60	3.70	3.34	4.16	4.44	15.63
Ratios									
Production (\$/bbl)	16.42	17.45	18.71	20.03	17.91	16.00	16.00	16.00	16.42
Purchased Energy (\$/bbl)	4.85	6.16	9.13	6.92	6.86	4.58	4.69	5.09	5.26
Prod&Purch En (\$/bbl)	21.27	23.61	27.84	26.95	24.77	20.58	20.69	21.09	21.68
Crown Royalties & Taxes	1%	1%	1%	1%	1%	16%	17%	17%	13%
Other Expense (\$/bbl)	0.42	0.22	0.23	0.24	0.25	0.12	0.10	0.10	0.14
Ebitda Margin	60%	67%	57%	59%	64%	56%	56%	55%	58%
Deprec., D,& A (\$/bbl)	5.72	6.10	6.00	6.11	6.00	6.00	6.00	6.00	6.00
Distribution	0.50	1.00	1.00	3.00	1.00	1.00	1.00	1.00	4.00

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