



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

July 30, 2010

Canadian Oil Sands Trust (COSWF)

Distribution Yield of 7% with Long Life and Oil Price Upside

<i>Symbol</i>	COSWF	<i>Ebitda Next Twelve Months ending 6/30/11 (US\$m)</i>	1,540
<i>Rating</i>	Contrarian Buy	<i>North American Natural Gas/Ebitda (%)</i>	-6
<i>Price (US\$/un)</i>	26.74	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	7/29/10	<i>Adjusted Reserves/Production NTM</i>	32.1
<i>Units (mm)</i>	484	<i>EV/Ebitda</i>	9.3
<i>Market Capitalization (US\$m)</i>	12,900	<i>PV/Ebitda</i>	12.9
<i>Debt (US\$m)</i>	1,400	<i>Probable Reserves (%)</i>	48
<i>Enterprise Value (EV) (US\$m)</i>	14,300	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	34.31
<i>Present Value (PV) (US\$m)</i>	19,800	<i>Present Value Proven and Probable Reserves(US\$/boe)</i>	23.32
<i>Net Present Value (US\$/unit)</i>	38	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	45
<i>Debt/Present Value</i>	0.07	<i>Earnings Next Twelve Months (US\$/unit)</i>	1.80
<i>McDep Ratio - EV/PV</i>	0.72	<i>Price/Earnings Next Twelve Months</i>	15
<i>Distribution Yield (%/year)</i>	7.3	<i>Distribution Next Twelve Months (US\$/unit)</i>	1.94
Note: Estimated cash flow and earnings tied to one-year futures prices for oil.			
Estimated present value presumes a long-term price for oil of US\$75 a barrel and natural gas, \$8 a million btu.			
For historical analysis of COS since 2002 see www.mcdep.com/4cos.htm			

Summary and Recommendation

We recommend **Canadian Oil Sands Trust (COSWF)** stock as a Contrarian Buy for an expected distribution yield of 7% a year and unlevered appreciation potential of 38% to Net Present Value (NPV) of US\$38 a unit. Second quarter results, released the evening of July 29, demonstrated effective cost control as cash flow (Ebitda minus Interest) exceeded expectations from three months ago after adjusting for actual oil price (see table Next Twelve Months Operating and Financial Estimates). Aiming for sustained production at capacity of 350,000 barrels daily (bd) by year end, management has nonetheless had to reduce expectations for the intervening months to allow for unplanned outages that seem to recur (see chart Syn crude Monthly Production). At current oil futures prices for the first half of 2011, capacity operations would generate about C\$0.85 a unit in quarterly cash flow. Though oil futures appear to be in a downtrend with current quote below the 40-week average, we think the trend will reverse with strengthening global growth (see chart Six-Year Commodity Price Meter). Most of cash flow could be available for distribution despite the upcoming conversion of the trust to a corporation. Income would be sheltered from corporate tax by capital spending at a measured pace to expand oil sands capacity by 70% to 600,000 bd. A low, 0.07 ratio of Debt to Present Value supports judicious use of debt to help finance capital investment. As a result, in our projection the distribution at C\$0.50 a quarter could continue and possibly increase.

Kurt H. Wulff, CFA

Weekly Valuation Rankings (see Tables 1-3 on pages 4-6).



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Canadian Oil Sands Trust									
Next Twelve Months Operating and Financial Estimates									
(Canadian Dollars)									
									Next Twelve Months
	Q2	Q1	Q2	Q3E	Q4E	Year	Q1E	Q2E	
	6/30/09	3/31/10	6/30/10	9/30/10	12/31/10	2010E	3/31/11	6/30/11	6/30/11
Volume									
Syncrude (mmb)	18.7	24.2	29.5	25.7	30.6	110.0	31.5	31.9	119.6
Syncrude (mbd)	206	269	324	279	332	301	350	350	328
Days	91	90	91	92	92	365	90	91	365
Trust share (%)	36.7	36.9	36.6	36.7	36.7	36.7	36.7	36.7	36.7
Trust Oil (mmb)	6.88	8.94	10.79	9.44	11.24	40.4	11.57	11.70	44.0
Trust Oil (mbd)	75.6	99.3	118.6	102.7	122.1	110.7	128.6	128.6	120.4
Price									
WTI Cushing (US\$/bbl)	59.52	78.67	77.85	78.14	79.81	78.62	81.10	82.34	80.35
Currency (US\$/C\$)	0.86	0.96	0.97	0.97	0.97	0.97	0.97	0.97	0.97
WTI Cushing (C\$/bbl)	69.38	81.82	80.05	80.54	82.26	81.17	83.59	84.86	82.81
Differential	(1.46)	0.24	(1.98)	(2.00)	(2.00)	(1.50)	(2.00)	(2.00)	(1.88)
Trust Oil Price (C\$/bbl)	67.92	82.06	78.07	78.54	80.26	79.67	81.59	82.86	80.93
Henry Hub Nat Gas (US\$/mmt)	3.50	5.32	4.09	4.64	4.86	4.73	5.16	5.00	4.92
Henry Hub Nat Gas (C\$/mmbt)	4.08	5.53	4.21	4.78	5.01	4.88	5.32	5.16	5.07
AECO Natural Gas (C\$/GJ)	3.09	4.95	3.68	4.18	4.38	4.30	4.66	4.51	4.43
Revenue (C\$mm)									
Oil	467	733	842	742	902	3,219	944	970	3,557
Other	(2)	(1)	0						
Total	469	734	842	742	902	3,220	944	970	3,557
Expense (C\$mm)									
Production	316	307	294	320	320	1,241	319	319	1,278
Purchased Energy	29	47	42	42	53	184	58	57	209
Crown Royalties	23	78	85	84	115	361	121	124	444
Insurance	2	2	3	3	3	11	3	3	12
Administration	6	8	8	8	8	32	7	7	29
Total	376	442	432	457	498	1,829	507	509	1,971
Ebitda	93	292	410	285	404	1,390	437	461	1,586
Deprec., Deplet., & Amort.	81	103	94	94	94	385	150	150	488
Non-Production	39	36	19	19	19	93	37	37	112
Exchange on U.S. Debt	(77)	(33)	38						
Other	(23)	(9)	(0)						
Ebit	73	195	259	172	291	917	251	274	987
Interest	25	26	22	22	22	92	23	21	88
Net Income (C\$mm)	48	169	237	150	269	825	227	253	898
Per Unit (C\$)	0.10	0.35	0.49	0.31	0.55	1.70	0.47	0.52	1.86
Units (millions)	484	484	484	484	484	484	484	484	484
Ebitda minus Interest	68	266	388	263	382	1,298	414	440	1,498
Per Unit (C\$)	0.14	0.55	0.80	0.54	0.79	2.68	0.86	0.91	3.10
Ratios									
Production (C\$/bbl)	45.94	34.38	27.25	33.88	28.48	30.72	27.56	27.26	29.08
Purchased Energy (C\$/bbl)	4.24	5.23	3.89	4.48	4.69	4.55	4.98	4.83	4.76
Prod&Purch En (C\$/bbl)	50.18	39.62	31.14	38.36	33.17	35.27	32.55	32.09	33.83
Crown Royalties & Taxes	5%	11%	10%	11%	13%	11%	13%	13%	12%
Ebitda Margin	20%	40%	49%	38%	45%	43%	46%	47%	45%
Deprec., D, & A (C\$/bbl)	11.78	11.53	8.71	9.95	8.37	9.53	12.96	12.82	11.10
Distribution (C\$/unit)	0.15	0.35	0.50	0.50	0.50	1.85	0.50	0.50	2.00

Please see disclosures on the final page.

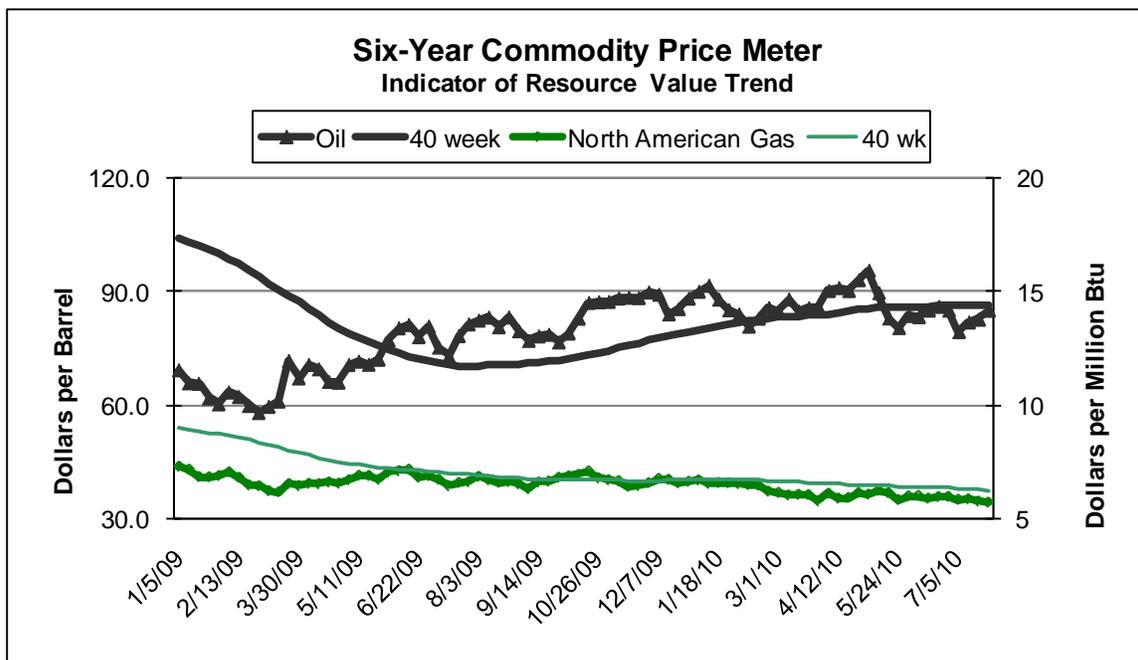
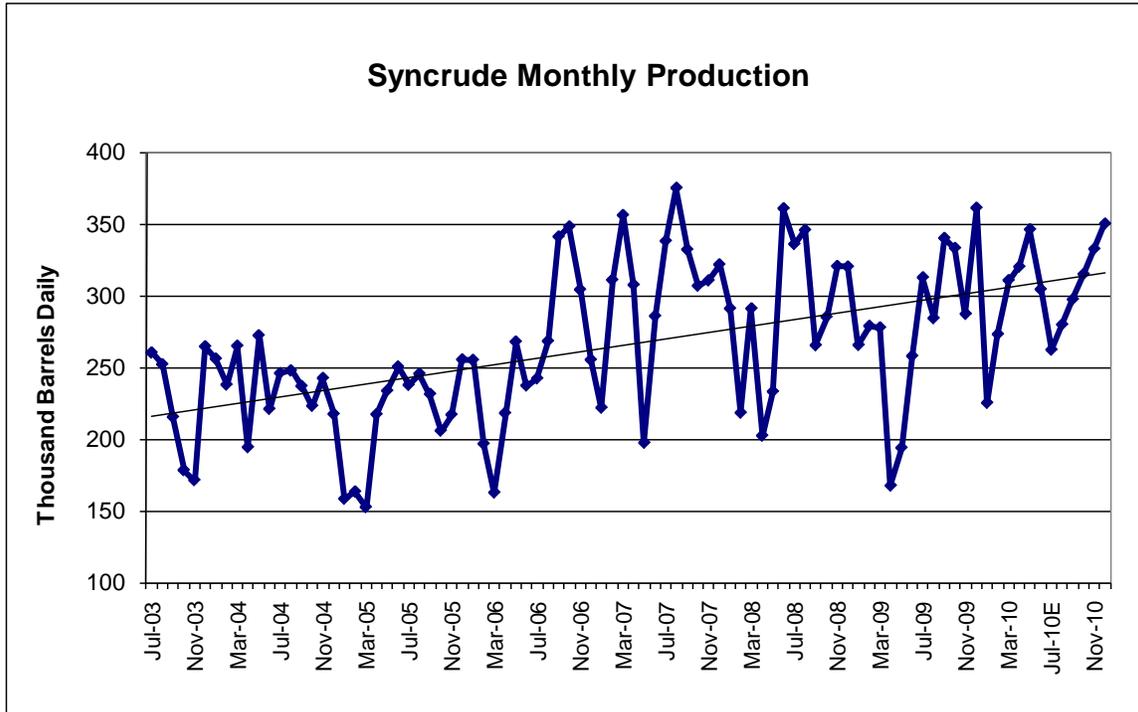
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Table 1									
McDep Income and Small Cap Energy Portfolio									
Debt, Business Segments and Income Yield									
						Present Value			
		Price	EV/	Enterprise	by Segment (%)				
Symbol/Rating	(US\$/sh)	Market	Cap	Value	N.Amer.	Oil	Dist.	Dist.	McDep
B = Buy	29-Jul	Market	Cap	Value	Natural	Oil	NTM	Yield	McDep
CB (see below)	2010	Market	Cap	(\$mm)	Gas	Prod'n	(\$/un)	(%)	Ratio
Canadian Income Trusts (US\$)									
Peyto Energy Trust	PEYUF	14.98	1.24	2,230	76	24	1.39	9.3	1.00
Pengrowth Energy Trust	PGH	9.64	1.47	4,100	39	61	0.81	8.4	0.91
Penn West Energy Trust	PWE	19.51	1.40	11,700	23	77	1.74	8.9	0.89
Enerplus Resources Fund	ERF	23.01	1.22	5,000	42	58	2.09	9.1	0.80
Canadian Oil Sands Trust	COSWF CB	26.74	1.11	14,300		100	1.94	7.3	0.72
<i>Total or Median</i>				37,300					0.89
Small Cap Independent Producers									
Denbury Resources Inc.	DNR	15.76	1.55	9,520	16	84	-	-	1.03
Petrohawk Energy Corporation	HK	15.91	1.54	7,820	96	4	-	-	1.03
Range Resources	RRC	38.31	1.31	8,340	82	18	0.08	0.2	1.00
Cimarex Energy Company	XEC B	69.05	1.11	6,520	71	29	0.32	0.5	0.93
Whiting Petroleum Corporation	WLL	87.18	1.22	6,210	13	87	-	-	0.92
Berry Petroleum Company	BRY	29.52	1.64	2,620	31	69	0.30	1.0	0.90
Ultra Petroleum	UPL	43.70	1.17	7,930	94	6	-	-	0.89
Birchcliff Energy Ltd. (US\$)	BIREF B	9.73	1.20	1,490	66	34	-	-	0.73
<i>Total or Median</i>				50,500					0.92
Top Line Cash Payers									
Sabine Royalty Trust	SBR	52.94	1.00	770	50	50	3.46	6.5	1.18
Permian Basin RT	PBT	19.04	1.00	890	38	62	1.35	7.1	1.06
Cross Timbers Royalty Trust	CRT	34.73	1.00	210	75	25	2.33	6.7	1.02
Dorchester Minerals, L.P.	DMLP B	26.12	1.02	790	71	29	1.72	6.6	0.97
Freehold Royalty Trust (US\$)	FRHLF	16.12	1.09	1,020	25	75	1.63	10.1	0.95
<i>Total or Median</i>				3,700					1.02
Bottom Line Cash Payers									
Linn Energy, LLC	LINE	30.14	1.39	6,050	42	58	2.52	8.4	1.28
Legacy Reserves LP.	LGCY	24.73	1.36	1,320	16	84	2.08	8.4	1.16
Encore Energy Partners, L.P. (52%)	ENP	19.69	1.30	600	23	77	2.00	10.2	1.12
San Juan Basin Royalty Trust	SJT B	26.12	1.00	1,220	100	-	1.50	5.8	1.04
Hugoton Royalty Trust	HGT B	20.96	1.00	840	90	10	1.65	7.9	1.00
Mesa Royalty Trust	MTR	45.85	1.00	85	75	25	3.68	8.0	0.95
<i>Total or Median</i>				10,100					1.08
Composite (excl COSWF)									
<i>Enterprise Value Weighting</i>				87,300	52	48			0.96
<i>Equal Weighting</i>					55	45			0.99
<i>Equal Weighted Buys</i>					69	31			0.93

CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.

McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses.

Present Value presumes long-term prices of \$75 a barrel for oil and \$8 a million btu for natural gas.

Dist. = Income distribution. NTM = Next Twelve Months Ended March 31, 2011. Enterprise Value = Market Cap and Debt.



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Table 3								
McDep Income and Small Cap Energy Portfolio								
Value Multiples - Rank by EV/Ebitda								
			Price (\$/sh)	Revenue	Dist/ Equity	Adjstd Resrvs/ Prod	PV/ Ebitda	EV/ Ebitda
	Symbol/ Rating		29-Jul 2010	Royalty (%)	Ebitda	NTM	NTM	NTM
Canadian Income Trusts (US\$)								
	PEYUF		14.98		1.08	23.1	11.7	11.6
	COSWF	CB	26.74		0.66	32.1	12.9	9.3
	PWE		19.51		0.67	9.9	8.8	7.8
	PGH		9.64		0.59	9.9	7.9	7.3
	ERF		23.01		0.60	9.7	8.7	6.9
	<i>Median</i>					9.9	8.8	7.8
Small Cap Independent Producers								
	RRC		38.31		-	12.4	11.8	11.8
	UPL		43.70		-	14.1	12.3	11.0
	BIREF	B	9.73		-	22.4	14.6	10.7
	DNR		15.76		-	11.3	8.7	9.0
	HK		15.91		-	7.1	8.7	9.0
	BRY		29.52		-	11.9	7.9	7.0
	WLL		87.18		-	10.3	7.2	6.6
	XEC	B	69.05		-	6.3	6.3	5.8
	<i>Median</i>					11.6	8.7	9.0
Top Line Cash Payers								
	SBR		52.94	100	1.00	8.7	13.0	15.3
	CRT		34.73	84	0.96	13.6	14.0	14.3
	DMLP	B	26.12	77	0.92	7.5	14.4	13.9
	PBT		19.04	42	0.90	13.3	12.1	12.8
	FRHLF		16.12	71	0.86	8.6	9.0	8.6
	<i>Median</i>					8.7	13.0	13.9
Bottom Line Cash Payers								
	LINE		30.14		1.56	20.0	13.0	16.6
	SJT	B	26.12		0.81	13.6	13.4	14.0
	HGT	B	20.96		0.90	12.5	11.5	11.5
	MTR		45.85		0.91	9.2	11.9	11.3
	ENP		19.69		1.08	12.9	9.2	10.3
	LGCY		24.73		0.87	12.0	8.3	9.7
	<i>Median</i>					12.7	11.7	11.4
B=Buy; CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.								
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended June 30, 2011; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses								
Top Line Cash Payers defined as those having Revenue Royalty (see fifth column from right).								

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