



Independent Stock Idea

February 2, 2012

rating: contrarian buy
s&p 500: 1324

Canadian Oil Sands Limited (COSWF) Possible Year of High Volume Ahead

<i>Symbol</i>	COSWF	<i>Ebitda Next Twelve Months ending 12/31/12 (US\$mm)</i>	2,310
<i>Rating</i>	Contrarian Buy	<i>North American Natural Gas/Ebitda (%)</i>	-4
<i>Price (US\$/share)</i>	24.26	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	2/1/12	<i>Adjusted Reserves/Production NTM</i>	27.8
<i>Shares (mm)</i>	485	<i>EV/Ebitda</i>	6.0
<i>Market Capitalization (US\$mm)</i>	11,800	<i>PV/Ebitda</i>	11.8
<i>Debt (US\$mm)</i>	2,100	<i>Probable Reserves (%)</i>	50
<i>Enterprise Value (EV) (US\$mm)</i>	13,800	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	55.62
<i>Present Value (PV) (US\$mm)</i>	27,300	<i>Present Value Proven and Probable Reserves(US\$/boe)</i>	17.18
<i>Net Present Value (US\$/share)</i>	52	<i>Ebitda Margin NTM (%)</i>	60
<i>Debt/Present Value</i>	0.08	<i>Earnings Next Twelve Months (US\$/share)</i>	2.74
<i>McDep Ratio - EV/PV</i>	0.51	<i>Price/Earnings Next Twelve Months</i>	9
<i>Dividend Yield (%/year)</i>	5.0	<i>Dividend Next Twelve Months (US\$/share)</i>	1.20
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\$100 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

Contrarian Buy **Canadian Oil Sands Limited (COSWF)** may see a year of high volume operations at the Syncrude oil sands upgrader after major maintenance is completed in the next four months. With the reporting of 2011 earnings on February 1, management confirmed that two cokers would undergo work. Three cokers transform the heaviest portions of oil sands bitumen into semi-finished crude oil and solid petroleum coke (see graphic [Upgrading Processes](#) on page 3). Coker 8-3, the newest and largest unit, will be turned around in the spring after completing three years of uninterrupted operation. Coker 8-1 suffered a premature upset in the fourth quarter last year and will undergo maintenance in the next few months to permit a continuous run to October 2013, or early 2015. Coker 8-2, the first to complete a full three years of trouble-free performance was restored last fall for another three years. With no major maintenance of cokers expected from the third quarter of 2012 through the third quarter of 2013, or longer, synthetic crude oil production may finally reach and exceed capacity of 350,000 barrels daily for four or more quarters. Combined with lower capital spending in 2014-2015, we can see a case for doubling the dividend in three years while meeting management's conservative criteria. Our projections show capacity for a dividend increase in 2012 when quarterly Cash Flow exceeds C\$1.00 a share and Free Cash Flow exceeds the current dividend rate of C\$0.30 (see [Next Twelve Months Operating and Financial Estimates](#) on page 2). Risk that those projections would not be achieved seems more than fully recognized in a low McDep Ratio of 0.51 for COSWF stock and 0.08 ratio of Debt/Present Value.

Kurt H. Wulff, CFA



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Canadian Oil Sands Ltd.									
Next Twelve Months Operating and Financial Estimates									
(Canadian Dollars)									
									<i>Next</i>
	<i>Q2</i>	<i>Q3</i>	<i>Q4</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Twelve</i>
	<i>6/30/11</i>	<i>9/30/11</i>	<i>12/31/11</i>	<i>2011</i>	<i>3/31/12</i>	<i>6/30/12</i>	<i>9/30/12</i>	<i>12/31/12</i>	<i>Months</i>
									<i>12/31/12</i>
Volume									
Syncrude (mmb)	25.6	27.5	23.2	105.2	26.1	26.1	30.4	30.4	113.0
Syncrude (mbd)	281	299	252	288	287	287	330	330	309
Company share (%)	36.6	36.5	36.2	36.8	36.7	36.7	36.7	36.7	36.7
Company Oil (mmb)	9.37	10.05	8.40	38.7	9.60	9.60	11.15	11.15	41.5
Company Oil (mbd)	102.9	109.3	91.3	106.0	105.4	105.4	121.2	121.2	113.4
Price									
WTI Cushing (US\$/bbl)	102.55	89.76	94.06	95.12	99.38	99.55	100.25	100.44	99.91
Currency (US\$/C\$)	1.03	1.02	0.98	1.01	1.00	1.00	1.00	1.00	1.00
WTI Cushing (C\$/bbl)	99.21	87.94	96.20	94.03	99.21	99.38	100.08	100.27	99.74
Differential	11.79	9.95	8.58	7.17	-	-	-	-	0.03
Company Oil Price (C\$/bbl)	111.00	97.89	104.78	101.19	99.21	99.38	100.08	100.27	99.77
Henry Hub Nat Gas (US\$/mm)	4.32	4.19	3.55	4.04	2.84	2.89	3.03	3.28	3.01
Henry Hub Nat Gas (C\$/mmb)	4.18	4.11	3.63	4.00	2.83	2.88	3.03	3.27	3.00
AECO Natural Gas (C\$/GJ)	3.62	3.51	3.19	3.48	2.49	2.53	2.66	2.88	2.64
Revenue (C\$mm)									
Sales	1,040	984	880	3,916	952	954	1,116	1,118	4,140
Crown Royalties	98	65	73	307	62	62	88	91	303
Net Revenue	942	919	807	3,609	890	891	1,028	1,028	3,837
Operating Expense (C\$mm)									
Production	297	324	348	1,301	338	338	338	338	1,353
Purchased Energy	50	50	45	200	27	28	50	40	145
Operating Income (C\$mm)	595	545	414	2,108	525	526	640	649	2,339
Administration and Insurance	6	6	10	33	9	9	9	8	35
Ebitda	589	539	404	2,075	516	517	631	641	2,304
Non-Production Expense	25	28	27	113	37	37	37	37	146
Deprec., Deplet., & Amort.	97	93	96	381	96	96	96	96	384
Exchange on U.S. Debt	(8)	75	(23)	22					
Other	(4)	(6)	(5)	(18)					
Ebit	478	349	309	1,577	383	384	498	509	1,774
Interest	15	11	6	46	0	0	0	0	1
Ebt	463	338	303	1,531	383	384	498	509	1,773
Income Tax	119	95	70	387	97	97	126	129	448
Net Income (C\$mm)	344	243	233	1,144	286	287	372	380	1,325
Shares (millions)	485	485	485	485	485	485	485	485	485
Earnings per share (C\$)	0.71	0.50	0.48	2.36	0.59	0.59	0.77	0.78	2.73
Ebitda Margin (E&P)	63%	59%	50%	57%	58%	58%	61%	62%	60%
Tax Rate	26%	28%	23%	25%	25%	25%	25%	25%	25%
Cash Flow (C\$mm)									
Net Income	344	243	233	1,144	286	287	372	380	1,325
Deprec., Deplet., & Amort.	97	93	96	381	96	96	96	96	384
Exchange on U.S. Debt	(8)	75	(23)	22					
Deferred tax and other	110	104	58	353	77	78	101	103	358
Cash Flow from Operations	543	514	364	1,901	460	460	569	579	2,068
Capital Expenditures	140	189	205	643	365	365	365	365	1,460
Free Cash Flow	403	325	159	1,258	95	95	204	214	608
Cash Flow per share	1.12	1.06	0.75	3.92	0.95	0.95	1.17	1.19	4.26
Free Cash Flow per share	0.83	0.67	0.33	2.59	0.19	0.20	0.42	0.44	1.25
Dividend (C\$/share)	0.30	0.30	0.30	1.10	0.30	0.30	0.30	0.30	1.20

SYNCRUDE'S UPGRADING PROCESSES

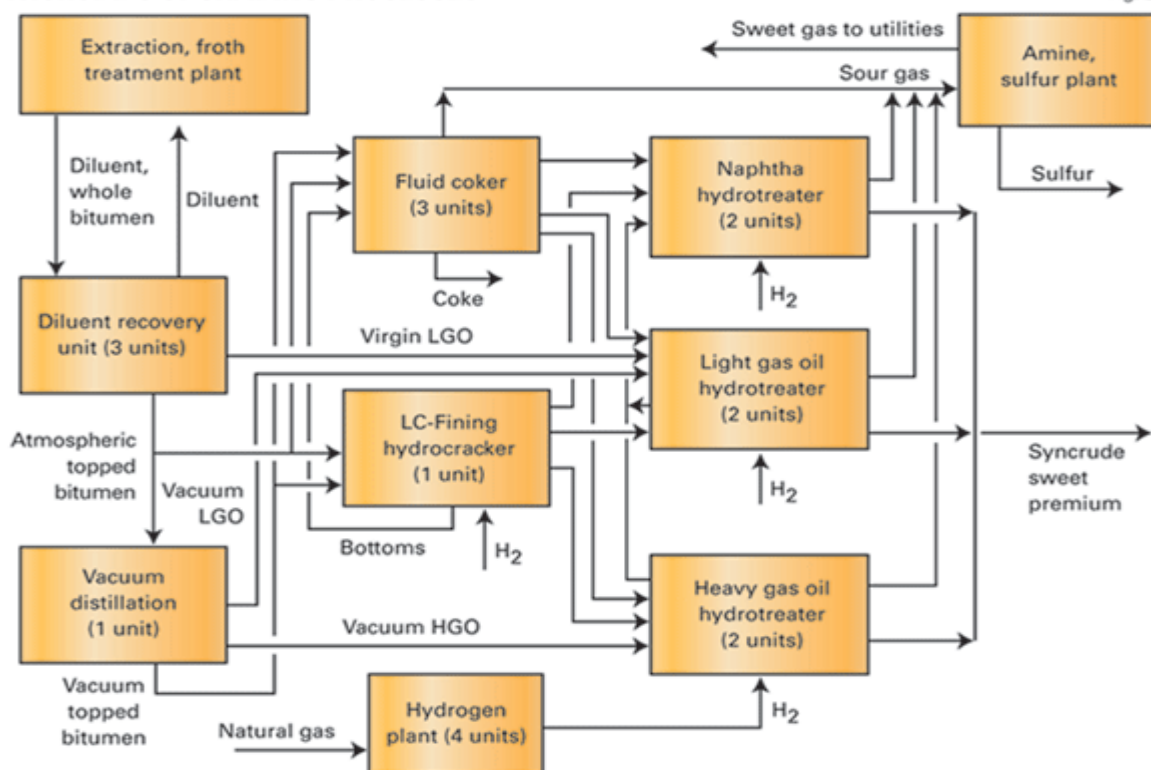


Fig. 2

Source: *Oil and Gas Journal*

Disclaimer: This analysis was prepared by Kurt Wulff, Manager of McDep LLC. 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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