



Independent Stock Idea

October 5, 2009

rating: buy
s&p 500: 1025

Canadian Oil Sands Trust (COSWF) Distribution Increase Ahead?

<i>Symbol</i>	COSWF	<i>Ebitda Next Twelve Months ending 9/30/10 (US\$mm)</i>	1,450
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	-7
<i>Price (US\$/un)</i>	26.13	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	10/2/09	<i>Adjusted Reserves/Production NTM</i>	21.8
<i>Units (mm)</i>	484	<i>EV/Ebitda</i>	9.7
<i>Market Capitalization (US\$mm)</i>	12,600	<i>PV/Ebitda</i>	15.0
<i>Debt (US\$mm)</i>	1,400	<i>Undeveloped Reserves (%)</i>	0
<i>Enterprise Value (EV) (US\$mm)</i>	14,100	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	31.72
<i>Present Value (PV) (US\$mm)</i>	21,800	<i>Present Value Proven Reserves(US\$/boe)</i>	25.68
<i>Net Present Value (US\$/unit)</i>	42	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	50
<i>Debt/Present Value</i>	0.07	<i>Earnings Next Twelve Months (US\$/unit)</i>	1.60
<i>McDep Ratio - EV/PV</i>	0.65	<i>Price/Earnings Next Twelve Months</i>	16
<i>Distribution Yield (%/year)</i>	8.1	<i>Distribution Next Twelve Months (US\$/unit)</i>	2.12
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

Buy-recommended **Canadian Oil Sands Trust (COSWF)** offers unlevered appreciation potential of 55% to a McDep Ratio of 1.0 where stock price would equal Net Present Value (NPV) of US\$42 a share. When the next quarterly distribution is declared on October 28, we believe the outlook supports C\$0.50 a unit, twice the C\$0.25 most recent payment. The increase we envision can be carried by our projection of fourth quarter Ebitda minus Interest of C\$0.75 a unit, about the same as an estimated C\$0.74 in the third quarter and a more normal level than C\$0.14 in the second quarter (see table Next Twelve Months Operating and Financial Estimates). Third quarter volume recovered from the depressed second quarter and management's guidance calls for operations at 99% of 350 thousand barrels daily (bd) capacity for the fourth quarter (see chart Syncrude Monthly Production). At the same time, a distribution more in line with cash flow may help stock price and thereby raise the initial offer of a potential acquirer who would try to buy at a price as far below NPV as possible. While the distribution increase is our opinion today, the COSWF board will have another month of history before deciding and/or may have different intentions. In any case, we believe that COSWF is a choice long-term pure oil growth investment at an attractive price.



Independent Stock Idea

October 5, 2009

Operations Rebound in Third Quarter

The Syncrude joint venture (37.7% COSWF) produced 340,000 bd of Sweet Premium crude oil in the month of September when there were no unexpected upsets. Continued operation at 347,000 bd would meet management's guidance of 104 million barrels for the year 2009. Considering the low expectations embedded in stock price, we think actual achievement of that level would be positive for stock price while a shortfall would ratify continued skepticism.

The price discount for Syncrude Sweet Premium compared to the Light, Sweet (WTI Cushing) industry benchmark narrowed to about C\$1 a barrel in the latest quarter. We make that rough estimate from data reported by Bloomberg. Our projection of a C\$4 discount for the next twelve months is more a means for building in a contingency than what we think will actually materialize. As economic growth proceeds, the discount should become a premium.

Strong Financial Position Supports Normal Distribution Policy

Ebitda minus Interest equal to C\$0.74 a unit estimated for the third quarter is an objectively measurable starting point for determining sustainable distribution capacity. From that we mentally subtract another C\$0.02, or so, to cover long-term repayment of the trust's low level of debt. Management subtracts Non-Production expense at the quarterly rate of about C\$0.07 a unit from cash flow. That is a conservative step because those outlays are in the nature of research and development that ought to result in incremental improvements in the future that earn a return on current outlays. Management also subtracts maintenance capital expenditures expected to run at the abnormally high quarterly rate of C\$0.08 a unit in the next few years. That is also conservative because outlays include amounts for the new "wet crushing" technique of ore processing, which could be considered enhancement beyond normal maintenance. At the same time management looks to increase debt by C\$0.17 a unit for the next five quarters, which can offset Non-Production expense and maintenance capital. Beyond 2010 there are cash income taxes and potential expansion capital outlays to consider. For now we think that a little less than Ebitda minus Interest is an appropriate measure of distribution capability.

Of course, financial conditions were not normal for most of the past year. During those times management felt it necessary to be especially cautious out of concern that normal commercial lending would be completely shut down. With successful recent borrowing in the bond market on terms that require no repayment for several years, the trust has almost eliminated any dependence on banks for short-term financing.

Single Most Attractive Oil Acquisition Target

Personally, we like management's conservative style, up to a point. We do not want to lose our ownership of a valuable asset because a third party took advantage of low stock price. COSWF stands out in our research as the most undervalued large cap, pure oil resource. Just as we like COSWF as an investment in a real asset at an attractive long-term rate of return, so might China, as an especially pertinent example. We want diversification in our portfolio from dollar



Independent Stock Idea

October 5, 2009

denominated assets, so does China apparently. We think oil price is going up; China has a strategic need for the commodity itself and a hedge against the price. On stream production, expansion potential, long life and relative political stability for COSWF are nice diversifiers to undeveloped resources in politically less stable areas such as Angola and Kazakhstan where China has also expanded.

There may not be too much political objection to China taking a partial interest in Syncrude. Important decisions in that venture are subject to the approval of multiple owners. China has already made modest investments in development stage oil sands companies. Partial ownership of Syncrude would be a window on extraction and processing technology that can have broader application to China and its companies.

At the same time, the Syncrude owners retain the disposition rights to their share of oil. China could swap its share of Syncrude oil for crude anywhere in the world and might have to look no further than a Syncrude partner like buy-recommended **Exxon Mobil (XOM)** or buy-recommended **ConocoPhillips (COP)** to do the transaction. If Syncrude oil were to be shipped directly to China eventually, incremental capital investment would be modest. If China wants more Syncrude than owned by COSWF, buy-recommended **Suncor (SU)** may be willing to part with its share picked up in the acquisition of Petro-Canada.

Stock Price on 50-Day Average

Several times during the past few months COSWF stock bottomed near the 50-day average currently US\$26 a unit where it last closed (see chart). Though we don't expect it and can't know anyway, stock price could fall to the 200-day average of US\$22 and still be in an uptrend by that measure. On the upside, we look at the old high of US\$56 and consider it a reasonable expectation to surpass that again.

A prospective acquirer may consider similar rationale. The old high shows acquirers the potential payoff. The pattern of recovery from the bottom suggests "the worst is over". Bold action now could be timely.

Kurt H. Wulff, CFA



Independent Stock Idea

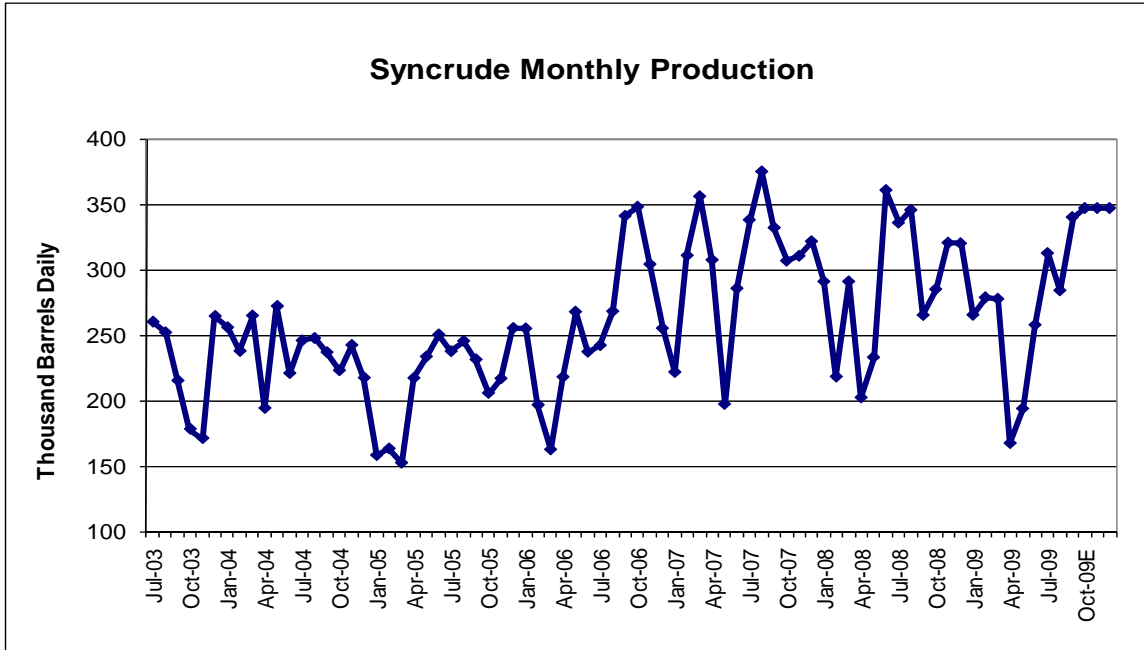
October 5, 2009

Canadian Oil Sands Trust									
Next Twelve Months Operating and Financial Estimates									
(Canadian Dollars)									
	Q3	Q2	Q3E	Q4E	Year	Q1E	Q2E	Q3E	Next Twelve Months
	9/30/08	6/30/09	9/30/09	12/31/09	2009E	3/31/10	6/30/10	9/30/10	9/30/10
Volume									
Syncrude (mmb)	29.1	18.7	28.7	31.9	104.0	29.7	30.0	30.4	122.0
Syncrude (mbd)	316	206	312	347	285	330	330	330	334
Days	92	91	92	92	365	90	91	92	365
Trust share (%)	36.9	36.7	36.7	36.7	36.9	36.7	36.7	36.7	36.7
Trust Oil (mmb)	10.73	6.88	10.54	11.73	38.4	10.91	11.03	11.15	44.8
Trust Oil (mbd)	116.7	75.6	114.6	127.5	105.2	121.2	121.2	121.2	122.8
Price									
WTI Cushing (US\$/bbl)	117.99	59.52	68.22	66.95	59.41	68.16	69.92	71.37	69.10
Currency (US\$/C\$)	0.96	0.86	0.93	0.92	0.88	0.92	0.92	0.92	0.92
WTI Cushing (C\$/bbl)	122.77	69.38	73.75	72.50	67.27	73.81	75.72	77.29	74.83
Differential	4.78	(1.46)	(1.00)	(4.00)	(0.90)	(4.00)	(4.00)	(4.00)	(4.03)
Trust Oil Price (C\$/bbl)	127.55	67.92	72.75	68.50	66.36	69.81	71.72	73.29	70.80
Henry Hub Nat Gas (US\$/mmbt)	10.25	3.50	3.39	4.71	4.12	5.87	5.88	6.10	5.64
Henry Hub Nat Gas (C\$/mmbt)	10.66	4.08	3.66	5.10	4.67	6.35	6.36	6.61	6.11
AECO Natural Gas (C\$/GJ)	7.86	3.09	2.70	3.89	3.66	5.17	4.83	4.87	4.69
Revenue (C\$m)									
Oil	1,369	467	767	803	2,548	762	791	817	3,174
Transportation & Marketing	9				-				-
Other	(19)	(2)			(4)				-
Total	1,379	469	767	803	2,552	762	791	817	3,174
Expense (C\$m)									
Production	276	316	280	280	1,184	280	280	280	1,120
Purchased Energy	69	29	39	63	182	53	50	51	215
Crown Royalties	231	23	57	65	149	39	65	69	238
Insurance	2	2	2	2	8	2	2	2	8
Administration	3	6	6	6	24	5	5	5	21
Total	581	376	384	416	1,547	379	401	407	1,602
Ebitda	798	93	383	388	1,006	383	390	411	1,572
Deprec., Deplet., & Amort.	121	81	124	124	436	124	124	132	505
Currency Hedging	(1)				-				
Non-Production	21	39	33	33	138	33	33	33	132
Exchange on U.S. Debt	32	(77)			(48)				-
Future Income Tax	6	(23)			(113)				-
Ebit	619	73	226	230	593	226	233	246	935
Interest	16	25	24	24	93	24	24	24	96
Net Income (C\$m)	603	48	202	206	500	202	209	222	839
Per Unit (C\$)	1.25	0.10	0.42	0.43	1.03	0.42	0.43	0.46	1.73
Units (millions)	482	484	484	484	484	484	484	484	484
Ebitda minus Interest	782	68	359	364	913	359	366	387	1,476
Per Unit (C\$)	1.62	0.14	0.74	0.75	1.89	0.74	0.76	0.80	3.05
Ratios									
Production (C\$/bbl)	25.68	45.94	26.56	23.87	30.82	25.66	25.38	25.10	24.98
Purchased Energy (C\$/bbl)	6.47	4.24	3.71	5.34	4.74	4.81	4.49	4.53	4.80
Prod&Purch En (C\$/bbl)	32.15	50.18	30.27	29.21	35.57	30.47	29.87	29.63	29.78
Crown Royalties & Taxes	17%	5%	7%	8%	6%	5%	8%	8%	8%
Ebitda Margin	58%	20%	50%	48%	39%	50%	49%	50%	50%
Deprec., D.& A (C\$/bbl)	11.27	11.78	11.80	10.61	11.35	11.40	11.27	11.80	11.26
Distribution (C\$/unit)	1.25	0.15	0.25	0.50	1.05	0.60	0.60	0.60	2.30



Independent Stock Idea

October 5, 2009



COSWF US \$ C **26.1556** -.9696 V --x-- EquityG
 As of Oct2 DELAYED Vol 31,865 Op 26.4025 V Hi 27.0039 V Lo 25.95 V
 COSWF US Equity Edit Options Bookmarks G 42 - Canada



Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000
 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2009 Bloomberg Finance L.P.
 SN 138500 H294-363-1 04-Oct-2009 06:56:26



Independent Stock Idea

October 5, 2009

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.

McDep or its employees may take positions in stocks the firm covers for research purposes. No trades in a subject stock shall be made within a week before or after a change in recommendation.

Certification: I, Kurt H. Wulff, certify that the views expressed in this research analysis accurately reflect my personal views about the subject securities and issuers. No part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research analysis.

Research Methodology/Ratings Description: McDep LLC 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.