

## **Alberta Royalty Panel Bomb**

### **Recommends 36% Increase in Government Oil Sands Take**

#### **Summary and Recommendation**

Our buy-recommended Canadian stocks may see selling pressure until investors have more confidence that the most negative recommendations of a provincial royalty panel will not be implemented. The stocks from highest to lowest McDep Ratio are **Imperial Oil (IMO)**, **Suncor (SU)**, **Petro-Canada (PCZ)**, **Encana (ECA)**, **Penn West Energy Trust (PWE)** and **Canadian Oil Sands Trust (COSWF)**. Though we are surprised that the panel recommends an increase in the oil sands royalty rate to 33% from 25%, stock prices may soon anticipate the likely potential damage. Moreover, pioneer oil sands producers, Suncor and Syncrude (37% COSWF), may exercise their legal right to reduce government payments by applying the royalty percentage to lower value raw material instead of finished synthetic crude oil. In its report released late on September 18, the panelists would increase “government take” from 47% to 64% that we calculate as a 36% increase in cash potentially to be taken by the Canadian province from investors (see <http://www.albertaroyaltyreview.ca/index.html>). It looks to us like the panel met in Caracas and we greatly hope that the final outcome is for the Alberta government to honor the agreements in place when multibillion dollar investment decisions were undertaken.

Kurt H. Wulff, CFA

#### **Oil and Gas Producers - Rank by McDep Ratio**

	<i>Symbol/</i>	<i>Rating</i>	<i>Price</i> <i>(US\$/sh)</i>	<i>Shares</i>	<i>Market</i>	<i>Net</i>	<i>Debt/</i>	<i>McDep</i>
			<i>18-Sep</i>	<i>(mm)</i>	<i>Cap</i>	<i>Value</i>	<i>Present</i>	<i>Ratio</i>
			<i>2007</i>		<i>(US\$mm)</i>	<i>(US\$/sh)</i>	<i>Value</i>	
Imperial Oil Limited (30%)	IMO	B	49.30	282	13,900	42.00	0.07	1.16
Suncor Energy	SU	B	99.45	472	46,940	105.00	0.08	0.95
Petro-Canada	PCZ	B	58.09	498	28,930	65.00	0.15	0.91
Encana Corporation	ECA	B	63.85	765	48,800	72.00	0.18	0.91
Penn West Energy Trust	PWE	B	30.07	242	7,260	36.00	0.19	0.87
Canadian Oil Sands Trust	COSWF	B	33.60	479	16,100	39.00	0.07	0.87

B = Buy, S = Sell, H = Hold

Present Value = Shares times Net Present Value divided by (1-Debt/Present Value).

Debt = Present Value times Debt/Present Value

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

**Please see disclosures on final page.**

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