

## Appreciation Potential on Tax Confusion

### Summary and Recommendation

Stock prices for buy-recommended **Canadian Oil Sands Trust (COSWF)** and **Penn West Energy Trust (PWE)** have increasing relative appreciation potential as other Canadian and energy producer stocks advance strongly. A possible negative last month, a proposed U.S. tax change far from enactment, may not have much net effect in the end. Amid little public notice, Congressman Richard E. Neal representing the Second District of Massachusetts introduced on March 23, 2007, the tax bill H.R. 1672 that would have distributions of certain non-U.S. entities taxed as ordinary income rather than at the reduced rate for qualified dividends. Presumably Canadian income trusts would be among the entities targeted. We also presume that the tax would be largely or fully offset initially by depletion, or return of capital. At long life COSWF annual depletion to offset taxable distributions might be 5% of investor cost basis while at shorter life PWE it might be 15%. Thus, the proposed move would add to paperwork without generating much new revenue which is a good reason for it not being enacted for Canadian oil and gas income trusts.

### Don't Mess with Success

Partnerships and trusts have an important economic advantage over traditional corporations because the unit holders or shareholders control reinvestment more directly. That leads to better capital decisions to enhance economic progress, we believe. Partnerships and trusts thrive on tax treatment that facilitates high rates of cash distribution with less double taxation at both the intermediate and final level.

We don't like Congressman Neal's idea because it would be a step backward from a nice simple compromise that generates more taxes for the government without complexity. Changing the dividend qualification for Canadian income trusts would renege on past promises. U.S. investors made long-term commitments on the basis of government tax policy.

The added complication could be moot in a few years. Canada may go ahead with unwanted tax changes that would spur most income trusts to convert to a new form. With every day's delay we become more encouraged that will not happen. Similarly, the reduced rate of dividend taxation in the U.S. expires in 2011, unless renewed by Congress. We think the renewal should be enacted as reduced double taxation of dividends is one of the most positive U.S. government actions in the decade.

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**Natural Gas and Oil Royalty Trusts**  
**Rank by McDep Ratio: Market Cap and Debt to Present Value**

|                                      | <i>Symbol/<br/>Rating</i> | <i>Price<br/>(\$/sh)<br/>12-Apr<br/>2007</i> | <i>Shares<br/>(mm)</i> | <i>Market<br/>Cap<br/>(\$mm)</i> | <i>Net<br/>Present<br/>Value<br/>(\$/un)</i> | <i>Debt/<br/>Present<br/>Value</i> | <i>McDep<br/>Ratio</i> |      |
|--------------------------------------|---------------------------|--|------------------------|----------------------------------|--|------------------------------------|------------------------|------|
| <b>U.S. Royalty Trusts</b>           |                           |  |                        |                                  |  |                                    |                        |      |
| Cross Timbers Royalty Trust          | CRT                       | 44.83  | 6.0                    | 270                              | 46.00  | -                                  | 0.97                   |      |
| Sabine Royalty Trust                 | SBR                       | 43.00  | 14.6                   | 630                              | 45.00  | -                                  | 0.96                   |      |
| Permian Basin RT                     | PBT                       | 14.58  | 46.6                   | 680                              | 16.50  | -                                  | 0.88                   |      |
| Dorchester Minerals, L.P.            | DMLP                      | 23.59  | 28.2                   | 670                              | 27.00  | -                                  | 0.87                   |      |
| Mesa RoyaltyTrust                    | MTR                       | 57.38  | 1.9                    | 110                              | 70.00  | -                                  | 0.82                   |      |
| San Juan Basin Royalty Trust         | SJT                       | B  | 32.15                  | 46.6                             | 1,500  | 40.00                              | -                      | 0.80 |
| Hugoton RoyaltyTrust                 | HGT                       | B  | 25.29                  | 40.0                             | 1,010  | 34.00                              | -                      | 0.74 |
|                                      | <i>Total or Median</i>    |  |                        | 4,900                            |  |                                    | 0.87                   |      |
| <b>Canadian Income Trusts (US\$)</b> |                           |  |                        |                                  |  |                                    |                        |      |
| Pengrowth Energy Trust               | PGH                       | 16.84  | 241.0                  | 4,060                            | 17.00  | 0.26                               | 0.99                   |      |
| Enerplus Resources Fund              | ERF                       | 42.56  | 123.0                  | 5,230                            | 47.00  | 0.11                               | 0.92                   |      |
| Penn West Energy Trust               | PWE                       | B  | 30.19                  | 239.5                            | 7,230  | 36.00                              | 0.15                   | 0.86 |
| Canadian Oil Sands Trust             | COSWF                     | B  | 24.84                  | 479.0                            | 11,900                                       | 35.00                              | 0.08                   | 0.73 |
|                                      | <i>Total or Median</i>    |  |                        | 28,400                           |  | 0.13                               | 0.89                   |      |

B = Buy

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

**Natural Gas and Oil Royalty Trusts**  
**Rank by EV/Ebitda: Enterprise Value to Earnings Before Interest, Tax, Deprec.**

|                                      | <i>Symbol/<br/>Rating</i> | <i>Price<br/>(\$/sh)<br/>12-Apr<br/>2007</i> | <i>Adjstd<br/>Resrvs/<br/>Prod<br/>NTM</i> | <i>PV/<br/>Ebitda<br/>NTM</i> | <i>EV/<br/>Ebitda<br/>NTM</i> | <i>Divd or<br/>Distrib<br/>P/E<br/>NTM</i> | <i>NTM<br/>(%)</i> |
|--------------------------------------|---------------------------|--|--|-------------------------------|-------------------------------|--|--------------------|
| <b>U.S. Royalty Trusts</b>           |                           |  |  |                               |                               |  |                    |
| Cross Timbers Royalty Trust          | CRT                       | 44.83  | 12.3                                       | 12.7                          | 12.3                          | 12.7                                       | 7.9                |
| Sabine Royalty Trust                 | SBR                       | 43.00  | 9.7  | 11.6                          | 11.1                          | 11.1                                       | 9.0                |
| Mesa RoyaltyTrust                    | MTR                       | 57.38  | 24.4                                       | 11.7                          | 9.6                           | 10.9                                       | 9.2                |
| Dorchester Minerals, L.P.            | DMLP                      | 23.59  | 8.5  | 10.6                          | 9.2                           | 14.6                                       | 9.9                |
| San Juan Basin Royalty Trust         | SJT                       | B  | 32.15                                      | 9.8                           | 10.6                          | 8.5  | 10.3               |
| Permian Basin RT                     | PBT                       | 14.58  | 8.1  | 9.5                           | 8.4                           | 9.9  | 10.1               |
| Hugoton RoyaltyTrust                 | HGT                       | B  | 25.29                                      | 13.1                          | 9.6                           | 7.2  | 9.8                |
|                                      | <i>Median</i>             |  | 9.8  | 10.6                          | 9.2                           | 10.9                                       | 9.8                |
| <b>Canadian Income Trusts (US\$)</b> |                           |  |  |                               |                               |  |                    |
| Canadian Oil Sands Trust             | COSWF                     | B  | 24.84                                      | 23.4                          | 12.4                          | 9.1  | 12.4               |
| Pengrowth Energy Trust               | PGH                       | 16.84  | 7.4  | 7.5                           | 7.4                           | 24.4                                       | 15.5               |
| Enerplus Resources Fund              | ERF                       | 42.56  | 9.0  | 7.0                           | 6.4                           | 11.6                                       | 10.3               |
| Penn West Energy Trust               | PWE                       | B  | 30.19                                      | 7.5                           | 7.3                           | 6.3  | 12.2               |
|                                      | <i>Median</i>             |  | 8.2  | 7.4                           | 6.9                           | 12.3                                       | 11.0               |

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended March 31, 2008; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

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**Natural Gas and Oil Royalty Trusts  
Rank by NTM Distribution Yield**

|                                      | <i>Symbol</i>          | <i>Revenue<br/>Royalty<br/>(%)</i> | <i>Natural<br/>Gas/<br/>Ebitda<br/>(%)</i> | <i>Dist/<br/>Ebitda</i> | <i>Dist/<br/>Equity<br/>Ebitda</i> | <i>NTM Distribution<br/>(\$mm)</i> | <i>NTM Distribution<br/>(\$/un)</i> | <i>Dist.<br/>Yield<br/>(%)</i> |
|--------------------------------------|------------------------|------------------------------------|--|-------------------------|------------------------------------|------------------------------------|-------------------------------------|--------------------------------|
| <b>U.S. Royalty Trusts</b>           |                        |                                    |  |                         |                                    |                                    |                                     |                                |
|                                      | CRT                    | 84                                 | 70   | 0.98                    | 0.98                               | 21                                 | 3.54                                | 7.9                            |
|                                      | SBR                    | 100                                | 59   | 1.00                    | 1.00                               | 56                                 | 3.87                                | 9.0                            |
|                                      | MTR                    | -                                  | 75   | 0.88                    | 0.88                               | 10                                 | 5.27                                | 9.2                            |
|                                      | SJT                    | -                                  | 99   | 0.83                    | 0.83                               | 146                                | 3.14                                | 9.8                            |
|                                      | DMLP                   | 64                                 | 77   | 0.92                    | 0.92                               | 66                                 | 2.34                                | 9.9                            |
|                                      | PBT                    | 35                                 | 41   | 0.84                    | 0.84                               | 69                                 | 1.47                                | 10.1                           |
|                                      | HGT                    | -                                  | 90   | 0.73                    | 0.73                               | 103                                | 2.58                                | 10.2                           |
|                                      | <i>Total or Median</i> |                                    | 75   | 0.88                    | 0.88                               | 500                                |                                     | 9.8                            |
| <b>Canadian Income Trusts (US\$)</b> |                        |                                    |  |                         |                                    |                                    |                                     |                                |
|                                      | COSWF                  | -                                  | (10)                                       | 0.51                    | 0.56                               | 748                                | 1.56                                | 6.3                            |
|                                      | ERF                    | -                                  | 49   | 0.58                    | 0.65                               | 538                                | 4.37                                | 10.3                           |
|                                      | PWE                    | -                                  | 41   | 0.61                    | 0.72                               | 848                                | 3.54                                | 11.7                           |
|                                      | PGH                    | -                                  | 46   | 0.85                    | 1.14                               | 627                                | 2.60                                | 15.5                           |
|                                      | <i>Total or Median</i> |                                    | 44   | 0.59                    | 0.68                               | 2,800                              |                                     | 11.0                           |
|                                      | KMP                    |                                    |  | 0.80                    | 1.73                               |                                    |                                     | 6.0                            |

NTM = Next Twelve Months Ended March 31, 2008

Ebitda = Earnings before interest, tax, depreciation and amortization

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