

Canada Tax Bomb

Summary and Recommendation

Buy-recommended **Canadian Oil Sands Trust (COSWF)** and **Penn West Energy Trust (PWE)** are likely to see selling pressure after Canada's Finance Minister Mr. Jim Flaherty proposed after the business day on Halloween that Canada assess a 31.5% corporate income tax on income trusts beginning in 2011. For valuation perspective to judge an expected market reaction, income trusts would be valued the same fundamentally as corporations such as buy-recommended **Encana (ECA)**, **Suncor (SU)**, and **Petro-Canada (PCZ)** and Hold-rated **Imperial Oil (IMO)**. On that basis there is no income premium yet in COSWF while PWE has a slightly higher valuation than IMO (see table Rank by McDep Ratio). The Finance Minister apparently felt compelled to act as telecommunications and finance companies have been announcing conversions to income trusts at an accelerating pace. The U.S. compromise with a 15% tax rate on qualified dividends is a better idea than the discredited high double taxation of dividends and the economic distortions that result.

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Oil and Gas Producers Rank by McDep Ratio: Market Cap and Debt to Present Value

	<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>31-Oct</i>	<i>(mm)</i>	<i>Cap</i>	<i>Present</i>	<i>Present</i>	<i>Ratio</i>
			<i>2006</i>		<i>(US\$mm)</i>	<i>(US\$/sh)</i>	<i>Value</i>	
Imperial Oil Limited (30%)	IMO	H	34.25	292	10,010	37.00	0.07	0.93
Petro-Canada	PCZ	B	42.59	506	21,550	49.00	0.18	0.89
Suncor Energy	SU	B	76.65	461	35,340	95.00	0.06	0.82
Encana Corporation	ECA	B	47.49	824	39,100	65.00	0.12	0.76
Income								
Enerplus Resources Fund	ERF		54.30	123	6,680	47.00	0.11	1.14
Pengrowth Energy Trust	PGH		19.60	220	4,320	20.00	0.22	0.99
Penn West Energy Trust	PWE	B	37.52	246	9,230	39.00	0.13	0.97
Canadian Oil Sands Trust	COSWF	B	27.02	468	12,640	35.00	0.08	0.79

B = Buy, S2 = Short half unlevered position, S3 = Short quarter unlevered position, 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

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