

Canada Tax Bomb Defused

Summary and Recommendation

Buy-recommended **Canadian Oil Sands Trust (COSWF)** and **Penn West Energy Trust (PWE)** may see renewed investor interest following yesterday's hearings in Ottawa on Flaherty's Folly, the Tax Bomb dropped by Canada's Finance Minister Mr. Jim Flaherty last Halloween (see [Industry Idea Flash](#), November 1, 2006). The opposition Liberal Party has defused the bomb with a more sensible position (see press release attached). Mr. Jim Kinnear of **Pengrowth Energy Trust (PGH)** testified at the hearings. A battle has been won, but the war is still on.

Kurt H. Wulff, CFA

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

| | <i>Symbol/ Rating</i> | <i>Price (\$/sh) 13-Feb 2007</i> | <i>Shares (mm)</i> | <i>Market Cap (\$mm)</i> | <i>Net Present Value (\$/un)</i> | <i>Debt/ Present Value</i> | <i>McDep Ratio</i> |
|--------------------------------------|---------------------------|--|------------------------|----------------------------------|--|------------------------------------|------------------------|
| Canadian Income Trusts (US\$) | | | | | | | |
| Enerplus Resources Fund | ERF | 43.05 | 123.1 | 5,300 | 47.00 | 0.11 | 0.93 |
| Pengrowth Energy Trust | PGH | 16.93 | 241.0 | 4,080 | 20.00 | 0.26 | 0.89 |
| Penn West Energy Trust | PWE B | 30.25 | 239.0 | 7,230 | 39.00 | 0.13 | 0.80 |
| Canadian Oil Sands Trust | COSWF B | 23.65 | 479.0 | 11,330 | 35.00 | 0.08 | 0.70 |
| | <i>Total or Median</i> | | | 27,900 | | 0.12 | 0.85 |

B = Buy

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

Rank by EV/Ebitda: Enterprise Value to Earnings Before Interest, Tax, Deprec.

| | <i>Symbol/ Rating</i> | <i>Price (\$/sh) 13-Feb 2007</i> | <i>Adjstd Resrvs/ Prod NTM</i> | <i>PV/ Ebitda NTM</i> | <i>EV/ Ebitda NTM</i> | <i>P/E NTM</i> | <i>Divd or Distrib NTM (%)</i> |
|--------------------------------------|---------------------------|--|--|-------------------------------|-------------------------------|--------------------|--|
| Canadian Income Trusts (US\$) | | | | | | | |
| Canadian Oil Sands Trust | COSWF B | 23.65 | 23.3 | 14.4 | 10.1 | 14.8 | 6.5 |
| Enerplus Resources Fund | ERF | 43.05 | 9.5 | 8.2 | 7.6 | 17.8 | 10.0 |
| Penn West Energy Trust | PWE B | 30.25 | 8.1 | 9.0 | 7.3 | 13.4 | 11.5 |
| Pengrowth Energy Trust | PGH | 16.93 | 7.1 | 7.3 | 6.5 | 11.1 | 15.1 |
| | <i>Median</i> | | 8.8 | 8.6 | 7.4 | 14.1 | 10.7 |

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended December 31, 2007; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

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LEADER OF THE OPPOSITION



CHEF DE L'OPPOSITION

Release

Date: February 13, 2007

For Release: Immediate

Liberals Propose New Income Trust Policy to Counter Conservative Mismanagement

Ottawa – The Liberal Opposition has a plan that could return as much as two thirds of the losses suffered by investors in the wake of the Conservatives' broken promise on income trusts, Liberal Opposition Leader Stéphane Dion and Finance Critic John McCallum said today.

“When this minority Conservative government undertook what it knew would be a harmful action to Canadians, it should have taken the utmost care to minimize the damage it would cause its citizens,” said Mr. Dion. “The government broke a promise and imposed a radically higher tax that resulted in a \$25-billion blow to the savings of hard-working Canadians.”

After hearing from numerous witnesses at the Standing Committee on Finance, the Liberal Opposition has a plan. It is proposing that the government repeal its planned 31.5 per cent tax regime and replace it with a modest 10 per cent tax, to be paid by the companies, that would be refundable to Canadian residents. The tax would be imposed immediately with the revenue shared equitably with provincial governments.

“Rather than considering what is best for Canadians, the Prime Minister simply decided that he was going to put an end to the income trust sector,” said Mr. McCallum. “After hearing from dozens of expert witnesses we have developed a proposal that is fair to Canadian investors, to corporations and the income trust sector as well as federal and provincial governments.”

Underpinning the Liberal proposals are four main policy objectives that should have been considered by the government:

- minimizing the loss of savings for Canadians who invested in income trusts;
- preserving the strengths of the income trust sector, notably a high-yield instrument for savers and for the energy sector;

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- creating tax fairness by eliminating any tax leakage caused by the income trust sector; and,
- creating tax neutrality by eliminating any incentive to convert from a corporation to an income trust purely for tax purposes.

The Liberal Opposition also proposes that the ban on new trust formations be continued, but that the government should commit to considering representations from sectors which can conform to the policy objectives listed above.

The proposal has already received support from Gordon Tait, an analyst with BMO Capital Markets, who had previously told members of the Finance Committee that extending the phase out period to ten years would likely return one-third of the investors lost savings.

“This new proposal would likely return at least of two-thirds of the losses experienced by the holders of income trusts after the October 31 announcement,” said Mr. Tait. “It would also ensure that Canadian investors continue to have a high-yield investment vehicle available to them.”

Dirk Lever, Managing Director for RBC Capital Markets, agreed with that assessment.

“I would concur with Gordon Tait’s view that at least two thirds of the lost value will be recovered,” said Mr. Lever. “It could be more.”

Yves Fortin, a noted economist who formerly worked for the Department of Finance, indicated that the proposal would put an end to any tax leakage alleged by the government.

“While I am not convinced that there is tax leakage, and expert opinions differ as to the existence or the extent of the tax leakage, this proposed 10 per cent tax would more than cover the problem,” said Mr. Fortin.

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