

## **Canadian Oil Sands Ownership Limits**

### **Summary and Recommendation**

We have no convincing explanation why stock price for buy-recommended **Canadian Oil Sands Trust (COSWF)** has not yet rebounded notably from the tumble it took more than a month ago when a construction delay was announced. One specific piece of relevant news is non-Canadian ownership is now estimated at 45%. That is up from 38% earlier this year (see *Stock Idea*, January 29, 2004). Should non-Canadian holders own more than 49%, the trustee apparently would take corrective action. Meanwhile stock price remains attractive, in our opinion, particularly to long-term investors who would realize their return from cash distributions.

### **A Good Idea Catches On Rapidly**

The many times larger U.S. market is having its impact on the ownership of Canadian royalty trusts formed to provide Canadian investors with income free of corporate income taxation. The resource oriented trusts are especially appealing as investors also become more interested in oil and gas. At the same time smaller market cap limits potential participation in U.S. oil and gas royalty trusts. Recently, U.S. investor participation in Canadian trusts has reached the point where non-Canadian ownership has become an issue. The Canadian government appears insistent that non-Canadian ownership be kept below 50% to keep the status of a mutual fund trust intact.

### **Limits May Affect Marketability**

The issue has attracted attention in recent months as other trusts have discussed remedies including the potential forced sale by latest U.S. purchasers. **Pengrowth (PGH)** implemented a speedy remedy by selling new units only to Canadian investors in an offering of securities to finance an acquisition. There appears to be room in COS's trust indenture for a creative solution.

### **Is a Stock Offering Imminent?**

The most frequent question we get seems to concern the prospect of an offering of new shares. Management brought up the possibility when it announced the need to spend more to complete construction. We have tended to discount the need for new equity in a strong oil price environment. Now with the ownership limits approaching, the odds on an offering may be higher, but an offering is still not a foregone conclusion in our mind.

## McDep Energy Income Producers

A Weekly Analysis of Royalty Trusts and Master Limited Partnerships

April 20, 2004

The prospect of an offering affects near term stock price in different ways. For example, a buyer may decide to wait until the offering and take advantage of the usual discount to entice buyers for a large number of shares. Since the offering would be conducted by Canadian underwriters in Canada, the opportunity for U.S. investors would be to buy during the period of depressed price before the offering. Last year the stock acted similarly in the face of an offering of new units. Once the offering was completed, the stock advanced again.

Meanwhile the stock is still off some 20% from its peak. That seems more than enough to reflect a discount to place a block of new shares.

Kurt H. Wulff, CFA

### McDep Energy Income Producers Rank by McDep Ratio: Market Cap and Debt to Present Value

	Symbol/ Rating	Price (\$/sh) 19-Apr 2004	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio
<b>Master Limited Partnerships and Canadian Royalty Trusts</b>							
Kinder Morgan Energy Partners, L.P.	KMP s	42.93	140.1	6,010	14.00	0.48	2.07
Kinder Morgan Management, LLC	KMR s	39.98	48.6	1,940	14.00	0.48	1.96
Provident Energy Trust	PVX	8.60	85.0	730	6.20	0.35	1.25
NAV Energy Trust	NVG.UN	8.42	19.0	160	7.00	0.18	1.17
Dorchester Minerals, L.P.	DMLP	18.19	27.0	490	17.00	-	1.07
Pengrowth Energy Trust	PGH	13.64	122.0	1,660	14.00	0.14	0.98
Enerplus Resources Fund	ERF	26.57	90.4	2,400	28.00	0.13	0.96
Canadian Oil Sands Trust (US\$)	COSWF B	31.00	86.9	2,690	62.00	0.19	0.59
<i>Total or Median</i>				<i>13,400</i>		<i>0.18</i>	<i>1.17</i>
<b>U.S. Royalty Trusts</b>							
Sabine Royalty Trust	SBR	32.33	14.6	470	27.00	-	1.20
Permian Basin RT (41%)	PBT	9.00	19.1	170	7.70	-	1.17
Hugoton RoyaltyTrust (46%)	HGT	22.62	18.4	420	22.00	-	1.03
San Juan Basin Royalty Trust	SJT B	21.39	46.6	1,000	22.00	-	0.97
Cross Timbers Royalty Trust	CRT	28.50	6.0	170	30.00	-	0.95
<i>Total or Median</i>				<i>2,200</i>		<i>-</i>	<i>1.03</i>

Buy/Sell rating after symbol: B - Buy full unlevered position, s - short quarter unlevered position  
McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses

Historical independent energy investment analysis by Kurt Wulff doing business as McDep Associates is posted at [www.mcdep.com](http://www.mcdep.com). Analyses are prepared from sources and data believed to be reliable, but no representation is made as to their accuracy or completeness. Mr. Wulff is not paid by covered companies. Neither he nor his spouse act contrary to a buy or sell rating.

# McDep Energy Income Producers

A Weekly Analysis of Royalty Trusts and Master Limited Partnerships

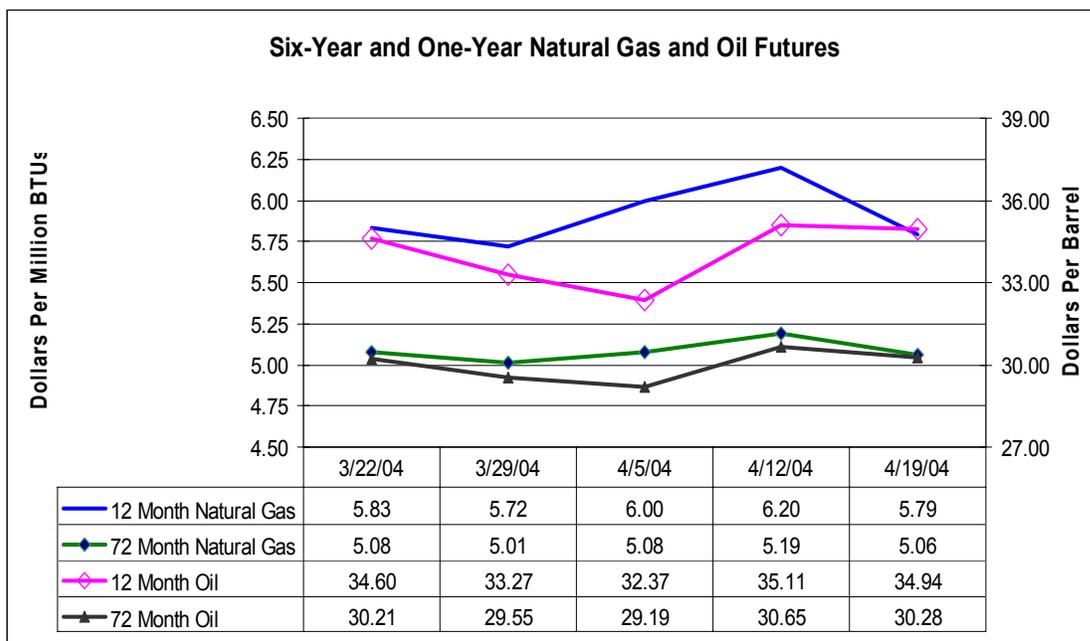
April 20, 2004

## McDep Energy Income Producers

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

	Symbol/ Rating	Price (\$/sh) 19-Apr 2004	EV/ Sales NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)	PV/ Ebitda NTM
<b>Master Limited Partnerships and Canadian Royalty Trusts</b>							
Kinder Morgan Energy Partners, L.P.	KMP s	42.93	3.1	18.5	22	6.3	8.9
Kinder Morgan Management, LLC	KMR s	39.98	3.0	17.5	20	6.8	8.9
Dorchester Minerals, L.P.	DMLP	18.19	9.1	9.9	19	10.1	9.3
Provident Energy Trust	PVX	8.60	5.0	7.1	19	12.5	5.7
Canadian Oil Sands Trust (US\$)	COSWF B	31.00	3.9	7.0	11	4.8	11.8
Enerplus Resources Fund	ERF	26.57	4.7	6.8	14	11.8	7.1
Pengrowth Energy Trust	PGH	13.64	4.3	5.9	10	13.8	6.1
NAV Energy Trust	NVG.UN	8.42	2.9	4.9	16	16.0	4.2
	<i>Median</i>		<i>4.3</i>	<i>7.1</i>	<i>19</i>	<i>10.1</i>	<i>8.9</i>
<b>U.S. Royalty Trusts</b>							
Sabine Royalty Trust	SBR	32.33	11.0	11.4	11	8.7	9.6
Cross Timbers Royalty Trust	CRT	28.50	8.1	11.2	11	8.7	11.8
Permian Basin RT (41%)	PBT	9.00	6.7	9.2	10	8.3	7.9
Hugoton RoyaltyTrust (46%)	HGT	22.62	6.5	8.5	10	10.0	8.2
San Juan Basin Royalty Trust	SJT B	21.39	6.5	7.8	10	10.3	8.1
	<i>Median</i>		<i>6.7</i>	<i>9.2</i>	<i>10</i>	<i>8.7</i>	<i>8.2</i>

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended March 31, 2005; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses



Historical independent energy investment analysis by Kurt Wulff doing business as McDep Associates is posted at [www.mcdep.com](http://www.mcdep.com). Analyses are prepared from sources and data believed to be reliable, but no representation is made as to their accuracy or completeness. Mr. Wulff is not paid by covered companies. Neither he nor his spouse act contrary to a buy or sell rating.