

Royalties for Fun and Profit **Seymour Schulich**

Summary and Recommendation

Oil and gas income stock investors may enjoy “Get Smarter – Life and Business Lessons” by Seymour Schulich, largest individual unitholder of buy-recommended **Canadian Oil Sands Trust (COSWF)**. The book by the Canadian billionaire and philanthropist will soon be available in Canada. Between the lines, it tells the story of a studious, hard-working, Chartered Financial Analyst, MBA, would-be chemist and engineer who succeeded by concentrating on oil and gold income properties with little downside and potentially great upside.

Goldstrike

A humble oil analyst with a Canadian institutional investor, Mr. Schulich and mining analyst, Pierre Lassonde, formed Franco-Nevada Mining Corporation in 1982. Seeing little progress investing in exploration plays, Seymour and his partner borrowed an idea from oil and gas analysis and sought to buy royalties on someone else’s project. The first important royalty purchase became a stroke of fortune when Barrick Gold made the Goldstrike discovery on the underlying Nevada lands in about 1987. Schulich and Lassonde ultimately sold Franco-Nevada to Newmont Mining in 2002. A thousand dollars committed in 1982-1983 by an original public or private investor, if left in the company, became \$1.25 million in 2004, Seymour relates.

Babe Ruth

A 2004 investment in Canadian Oil Sands Trust apparently propelled Mr. Schulich to billionaire status. Under his direction Newmont owns about 6% of COS units (30 million) and Seymour owns about 3% (15 million) personally (see *Stock Idea, COSWF – Ten Percent Buyer Surfaces*, October 6, 2004, <http://www.mcdep.com/cos41006.pdf>). Like Babe Ruth pointing to the fences before hitting a home run, Seymour told the Canadian press that he was looking for a “multiple bagger” – four times in four years”. Counting distributions, the home run is official with four-fold appreciation.

Starting with Ranger Oil in the 1960s and reaching to Canadian Oil Sands Trust in the 2000s, Mr. Schulich says he has made more money in oil than in gold. He credits that in part to his experience in analyzing oil investments. “Know your edge” is one of the principles Seymour stresses in “Get Smarter” as it is aimed at younger people.

Even a billionaire looks to richer people and Mr. Schulich looks to Warren Buffett among others. Seymour cites Mr. Buffett in a chapter on the “Power of the 20% Position versus

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Hostile Takeovers”. An initial investment may be the most profitable in a public company while trying to buy 100% inevitably triggers an auction situation. Apparently like the Omaha Oracle, Seymour lives in the same house in Toronto that he purchased as a young man in 1973.

Schulich Goes with School

Again, like Buffett, Schulich expects to give away most of his money. He must be having fun doing it at the same time leaving his legacy. “People only die when they are forgotten”, he writes. With a name like Schulich, why not give money to Schools? Seymour will be remembered at the Schulich School of Music at McGill University, the Schulich School of Business at York University, the Schulich School of Medicine & Dentistry at the University of Western Ontario, the Schulich School of Engineering at the University of Calgary and the Schulich Faculty of Chemistry in Israel.

Where is the Next Billion?

Seymour thoughtfully inscribes a book for us, “May we see \$100 oil by 2010 and then \$100 COS.” We like those sentiments, but take them at face value. Not even a billionaire makes it a sure thing. Nonetheless, the upside is there among many risks. The downside is partly limited in the income distribution, or royalty-like structure. It has worked for Seymour in the past and it can work again in the future.

Kurt H. Wulff, CFA

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

	<i>Symbol/ Rating</i>	<i>Price (\$/sh) 3-Aug 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>	
U.S. Royalty Trusts								
Sabine Royalty Trust	SBR	42.75	14.6	620	45.00	-	0.95	
Cross Timbers Royalty Trust	CRT	41.18	6.0	250	46.00	-	0.89	
Mesa RoyaltyTrust	MTR	59.46	1.9	110	70.00	-	0.85	
Permian Basin RT	PBT	13.76	46.6	640	16.50	-	0.83	
San Juan Basin Royalty Trust	SJT	B	32.18	46.6	1,500	40.00	-	0.80
Dorchester Minerals, L.P.	DMLP		21.23	28.2	600	27.00	-	0.79
Hugoton RoyaltyTrust	HGT	B	23.97	40.0	960	34.00	-	0.71
<i>Total or Median</i>					4,700		0.83	
Canadian Income Trusts (US\$)								
Pengrowth Energy Trust	PGH		18.00	244.0	4,390	17.00	0.29	1.04
Penn West Energy Trust	PWE	B	30.16	241.5	7,280	36.00	0.17	0.86
Enerplus Resources Fund	ERF		43.43	123.4	5,360	52.00	0.13	0.86
Canadian Oil Sands Trust	COSWF	B	30.89	479.0	14,800	39.00	0.07	0.81
<i>Total or Median</i>					31,800		0.15	0.86

B = Buy

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

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

	<i>Symbol/ Rating</i>	<i>Price (\$/sh) 3-Aug 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>
U.S. Royalty Trusts							
Sabine Royalty Trust	SBR	42.75	10.2	11.7	11.1	11.1	9.0
Cross Timbers Royalty Trust	CRT	41.18	12.4	12.1	10.8	11.5	8.7
Dorchester Minerals, L.P.	DMLP	21.23	9.1	12.9	10.1	16.7	9.9
San Juan Basin Royalty Trust	SJT	B	32.18	10.2	12.5	10.0	12.2
Mesa RoyaltyTrust	MTR		59.46	23.7	11.6	9.9	11.2
Permian Basin RT	PBT		13.76	8.7	9.9	8.3	9.9
Hugoton RoyaltyTrust	HGT	B	23.97	13.9	11.1	7.9	11.4
	<i>Median</i>			<i>10.2</i>	<i>11.7</i>	<i>10.0</i>	<i>11.4</i>
Canadian Income Trusts (US\$)							
Canadian Oil Sands Trust	COSWF	B	30.89	21.1	10.0	8.1	9.7
Pengrowth Energy Trust	PGH		18.00	7.5	7.4	7.7	25.9
Enerplus Resources Fund	ERF		43.43	9.0	7.7	6.6	12.1
Penn West Energy Trust	PWE	B	30.16	7.7	7.1	6.1	11.5
	<i>Median</i>			<i>8.4</i>	<i>7.6</i>	<i>7.2</i>	<i>11.8</i>

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended June 30, 2008; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

Natural Gas and Oil Royalty Trusts
Rank by NTM Distribution Yield

	<i>Symbol</i>	<i>Revenue Royalty (%)</i>	<i>Natural Gas/ Ebitda (%)</i>	<i>Dist/ Ebitda</i>	<i>Dist/ Equity Ebitda</i>	<i>NTM Distribution (\$mm)</i>	<i>Dist. Distribution (\$/un)</i>	<i>Dist. Yield (%)</i>
U.S. Royalty Trusts								
San Juan Basin Royalty Trust	SJT	-	98	0.82	0.82	123	2.63	8.2
Cross Timbers Royalty Trust	CRT	84	68	0.94	0.94	22	3.59	8.7
Hugoton RoyaltyTrust	HGT	-	89	0.69	0.69	84	2.11	8.8
Mesa RoyaltyTrust	MTR	-	72	0.88	0.88	10	5.29	8.9
Sabine Royalty Trust	SBR	100	54	1.00	1.00	56	3.85	9.0
Dorchester Minerals, L.P.	DMLP	64	72	1.00	1.00	59	2.10	9.9
Permian Basin RT	PBT	35	37	0.83	0.83	65	1.38	10.1
	<i>Total or Median</i>		<i>72</i>	<i>0.88</i>	<i>0.88</i>	<i>400</i>		<i>8.9</i>
Canadian Income Trusts (US\$)								
Canadian Oil Sands Trust	COSWF	-	(8)	0.63	0.68	1,257	2.62	8.5
Enerplus Resources Fund	ERF	-	44	0.61	0.70	583	4.72	10.9
Penn West Energy Trust	PWE	-	36	0.63	0.76	935	3.87	12.8
Pengrowth Energy Trust	PGH	-	43	0.87	1.23	686	2.81	15.6
	<i>Total or Median</i>		<i>39</i>	<i>0.63</i>	<i>0.73</i>	<i>3,500</i>		<i>11.9</i>
Kinder Morgan Energy Partners	KMP			0.76	1.60			6.7

NTM = Next Twelve Months Ended June 30, 2008

Ebitda = Earnings before interest, tax, depreciation and amortization

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