Coalition of Canadian Energy Trusts

Presentation to Finance Minister Jim Flaherty

November 28, 2006

The Coalition

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- The Coalition represents all 31 of the Canadian oil and gas royalty trusts and the majority of the related energy services and infrastructure trusts
- We represent more than 20% of the oil and gas production in Canada; more than 1 million barrels of oil equivalent per day
- Our combined market capitalization on October 31, 2006 was almost $100 billion
- We directly employ more than 8,000 Canadians and indirectly tens of thousands more
- In 2006 we will generate payments of almost $5 billion to governments in Canada including royalties, property and capital taxes, inclusive of the estimated $2.4 billion in personal taxes on distributions.
- In 2005 oil and gas royalty trusts generated taxes representing 43% of corporate income taxes relative to just 19% of the corporate revenue
- In 2006 we will reinvest $7 billion of capital into the Western Canadian Sedimentary Basin ("WCSB")
- Operating and administrative expenditures total more than $5 billion annually

The Case for Consultation

- Significant impact on the investment portfolios of millions of unitholders
- Potential impact on the future development of Canada's strategic conventional energy resources
- Risk of the loss of Canadian "mind and management" control of a significant portion of the conventional energy industry
- In an effort to create a "level playing field", the Proposals put at risk beneficial relationships between:
    - Trusts and senior energy corporations
    - Trusts and high growth smaller exploration companies
    - Investors both Canadians and foreign
    - Canadians with individual retirement plans and members of large group pension plans

The Case for Consultation

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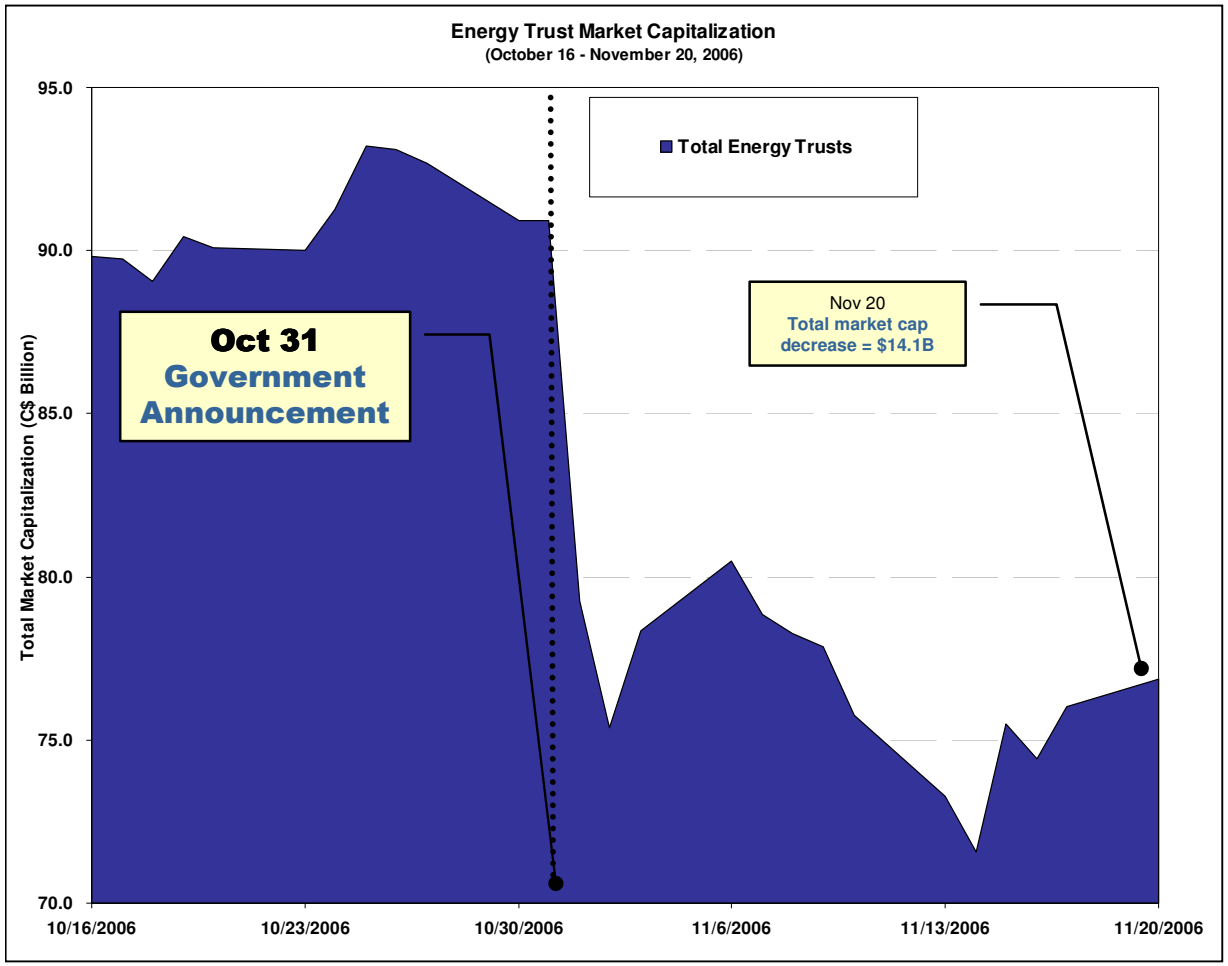

$14.1 billion impact on energy without recovery

Energy Trusts Optimize Mature Assets

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- The conventional Western Canada Sedimentary Basin is mature.
- Trusts work to maximize the extraction from mature oil and gas reservoirs in Canada, investing heavily in drilling, new technologies and engineering processes.
- As the basin matures, control of these lower growth assets has shifted from growth oriented, low yield corporations to capital-efficient higher yield trusts.
- Energy trusts provide an investment vehicle to an aging population that seek higher yield alternatives. These investors, in turn, provide much-needed capital for these mature assets.
- Approximately $9 billion of foreign-controlled mature assets have been acquired by Canadian energy trusts since 2001, reversing a trend of increasing foreign ownership in the Canadian energy sector.

Energy Trusts as a Source of Capital

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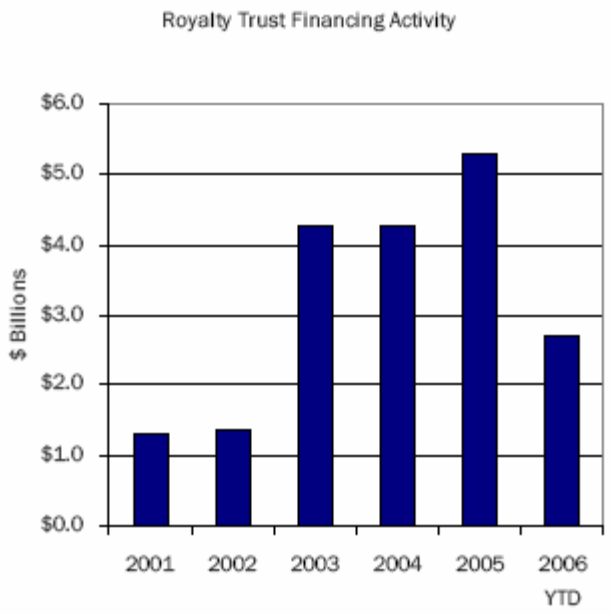
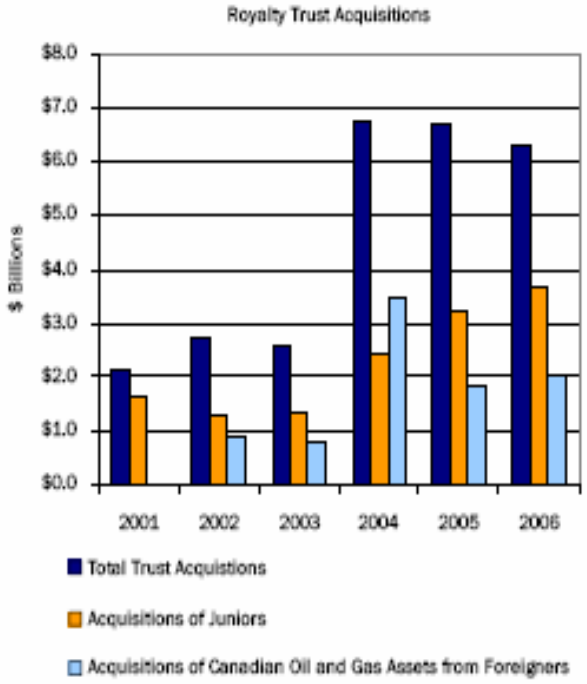
Royalty trusts lower the cost of capital for the whole industry

Figure 8: Royalty trust financing activity



Source: Canaccord Adams, Company Reports, Financial Post, Sayer Securities

Figure 9: Royalty trust acquisitions



Symbiotic Relationships in the Energy Industry

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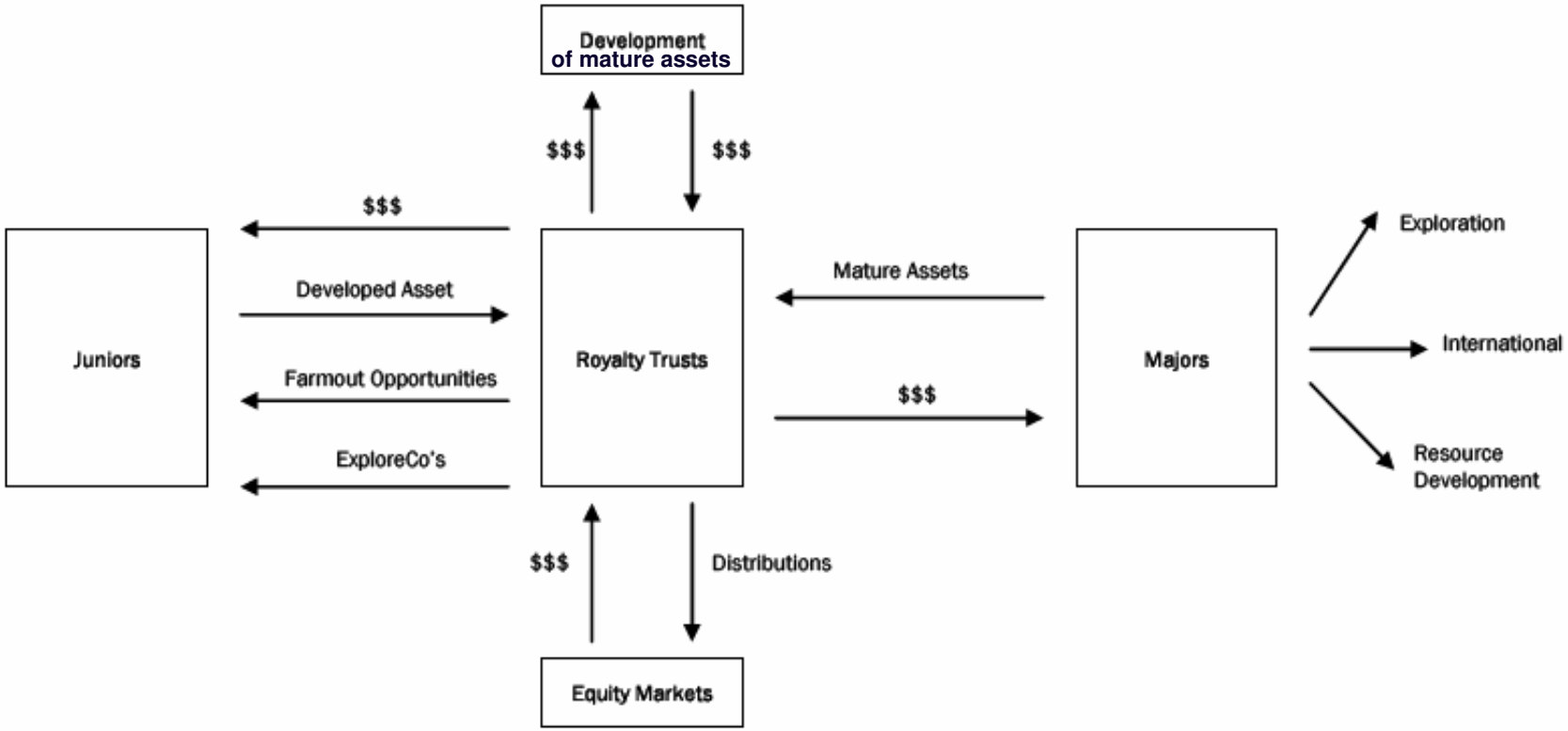
Figure 7: Interdependence of industry players



Source: Canaccord Adams

Western Canadian Sedimentary Basin
A Mature Basin With Conventional Production In Decline

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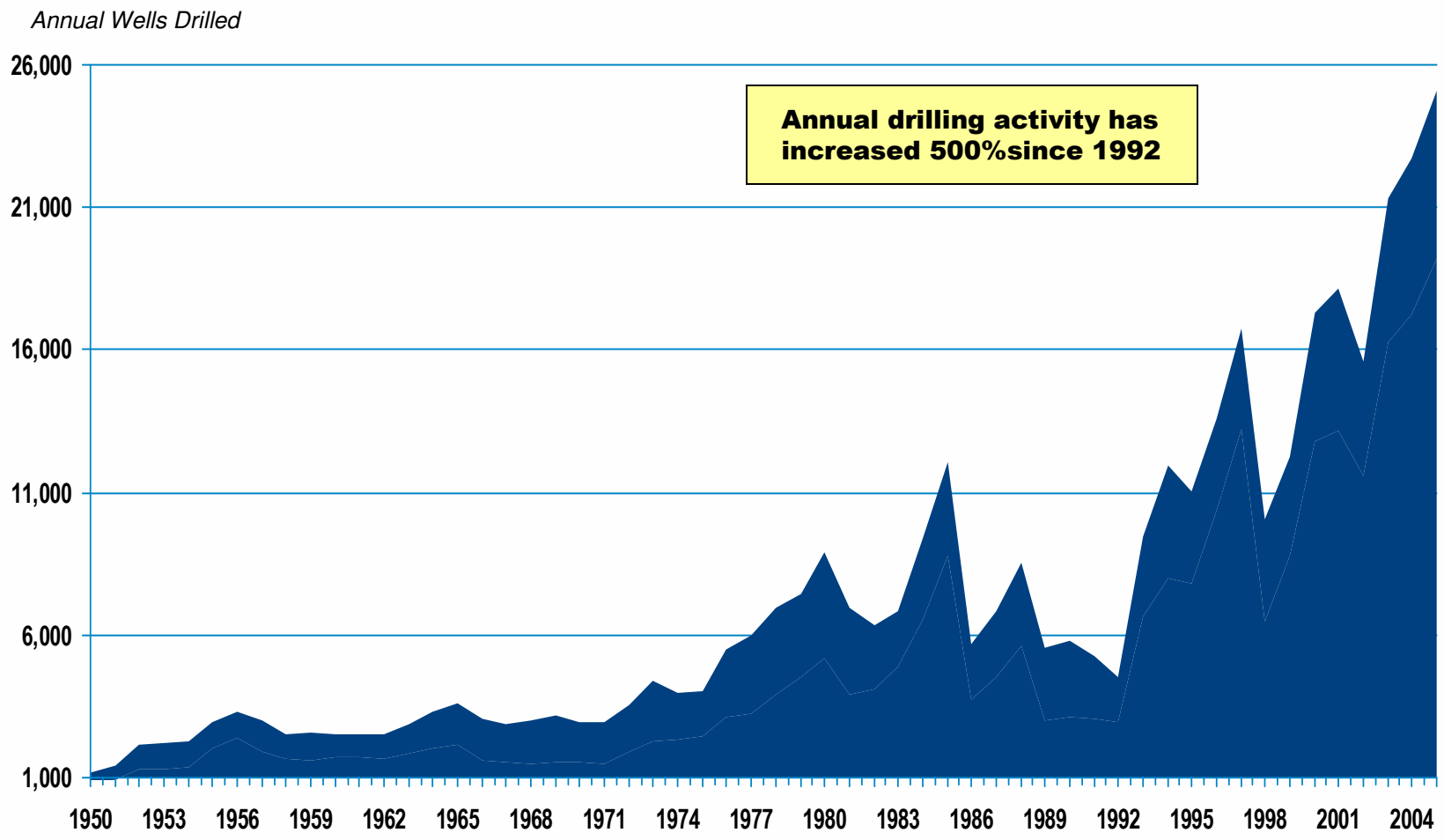

Source – Canadian Association of Petroleum Producers

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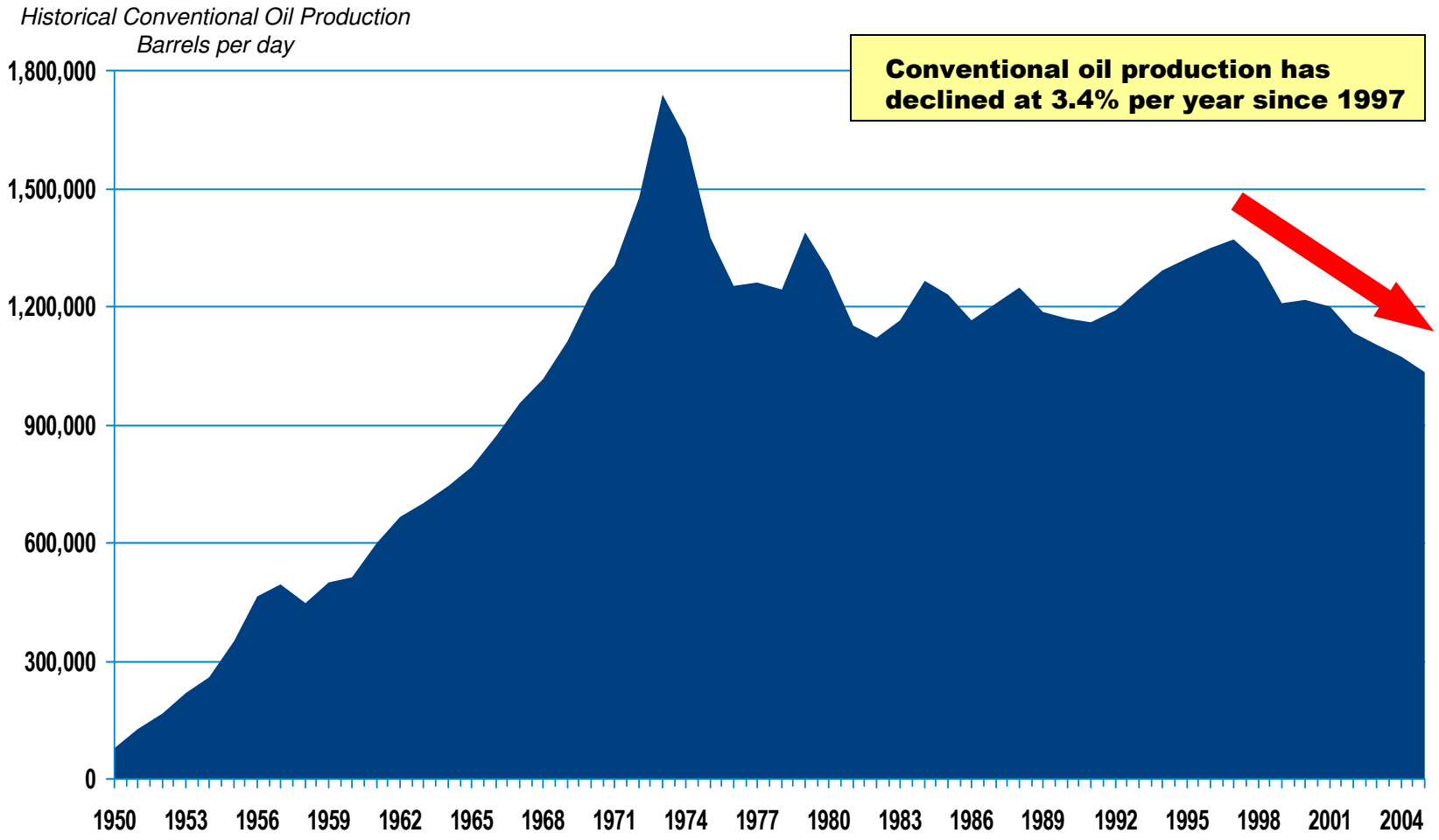

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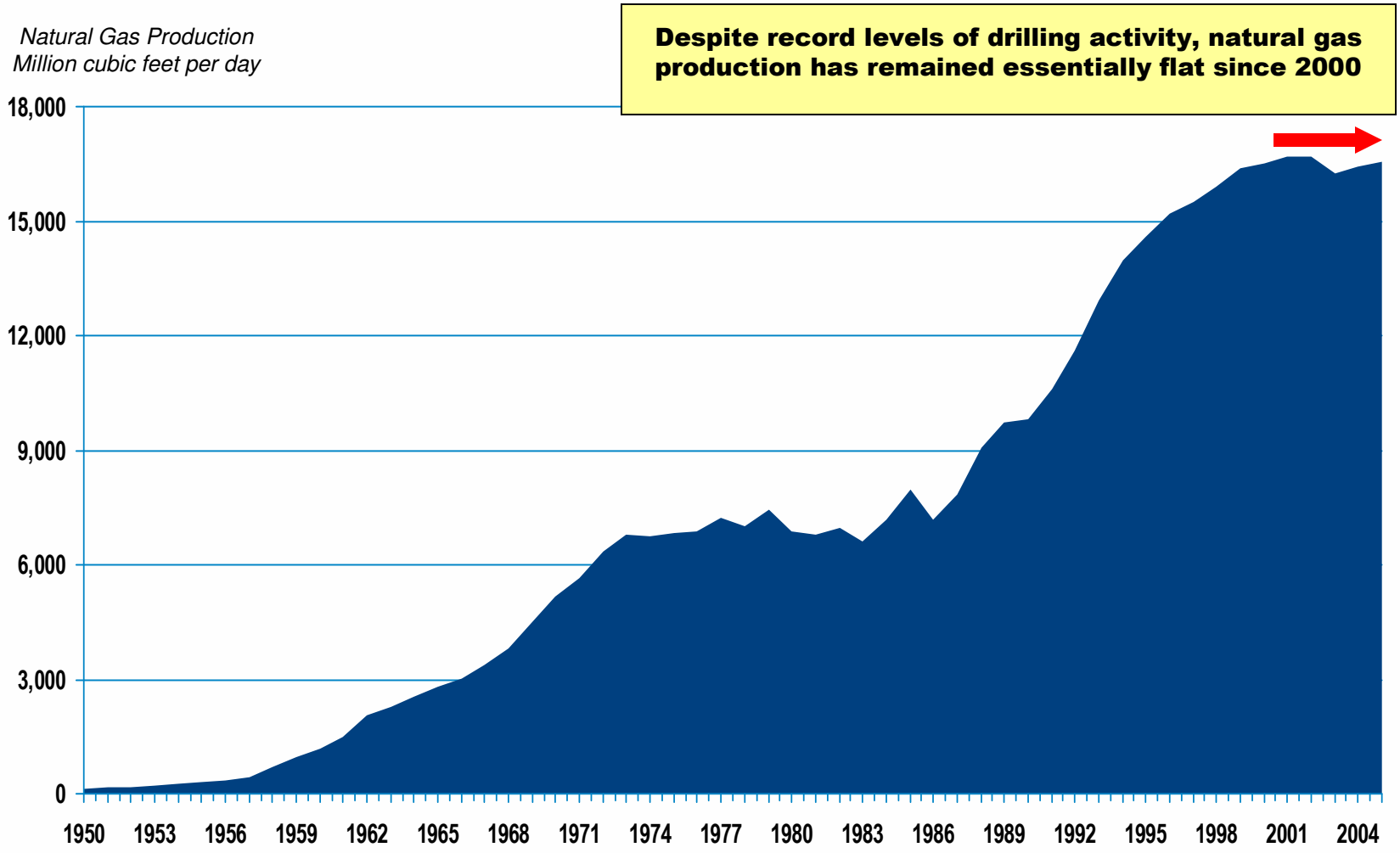

Source – Canadian Association of Petroleum Producers

Operating in a Mature Basin

- Despite record levels of capital spending (doubled since 2002), conventional oil production is declining and natural gas production has only remained flat
- Oil production continues to grow as a result of expansion of oil sands operations; however, these mega-projects are the domain of senior producers, both foreign and domestic and not available to the majority of companies operating in the WCSB
- In a basin such as the WCSB, with declining total conventional production; all companies cannot be successful as growth entities without an unconventional production component
- The oil and gas trust model has evolved in the last 10 years as the WCSB has matured in to a sustainability model that is more appropriate
- Opportunistic acquisitions are required to replenish development opportunities and / or grow the base production

Operating in a Mature Basin

- Sustainability is achieved through a combination of efficient capital deployment for existing assets to maintain production and an attractive cost of capital to acquire new assets that fit the model
- Efficient capital deployment is achieved by focusing on relatively low risk/reward activities that are meaningful to a trust with a sustainability model but are unattractive to large corporations

Enhanced Productivity

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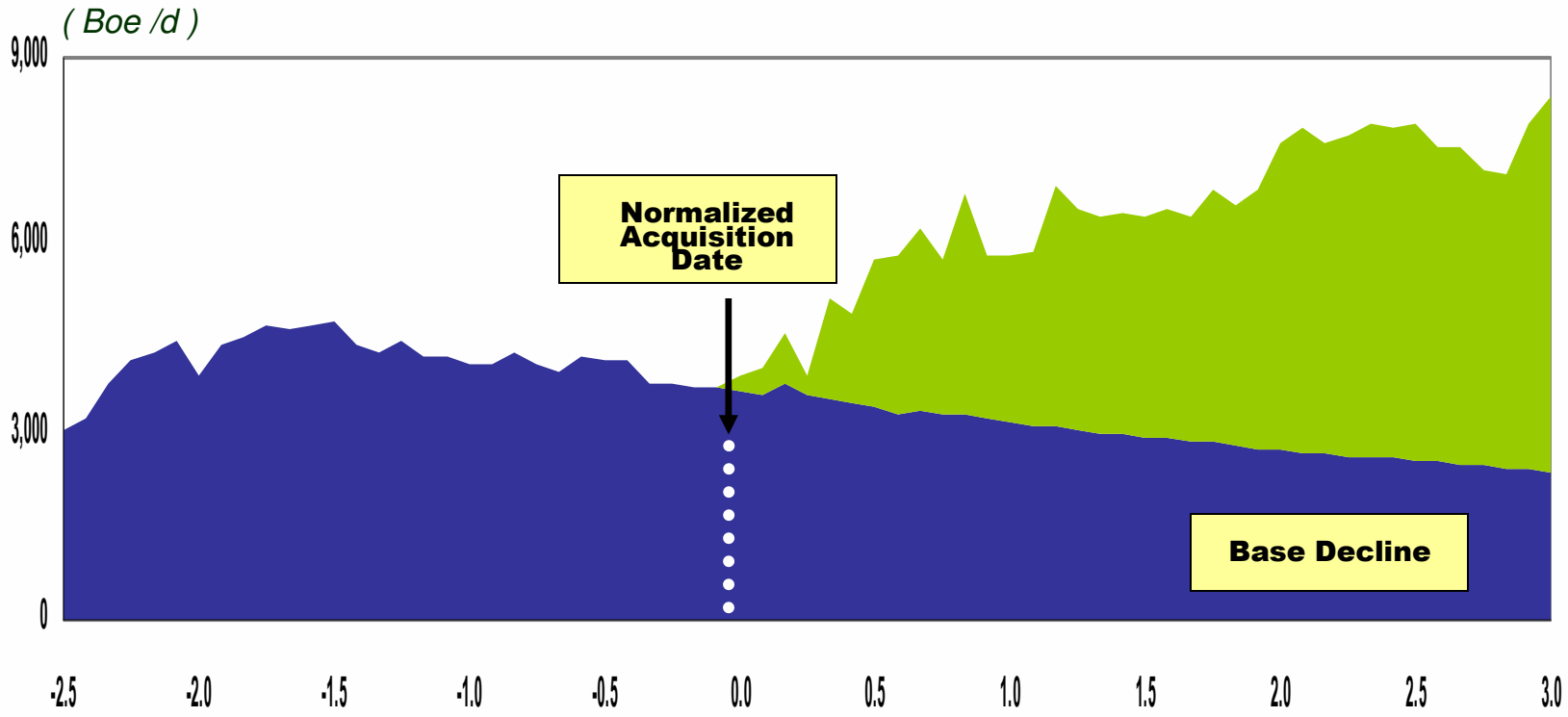
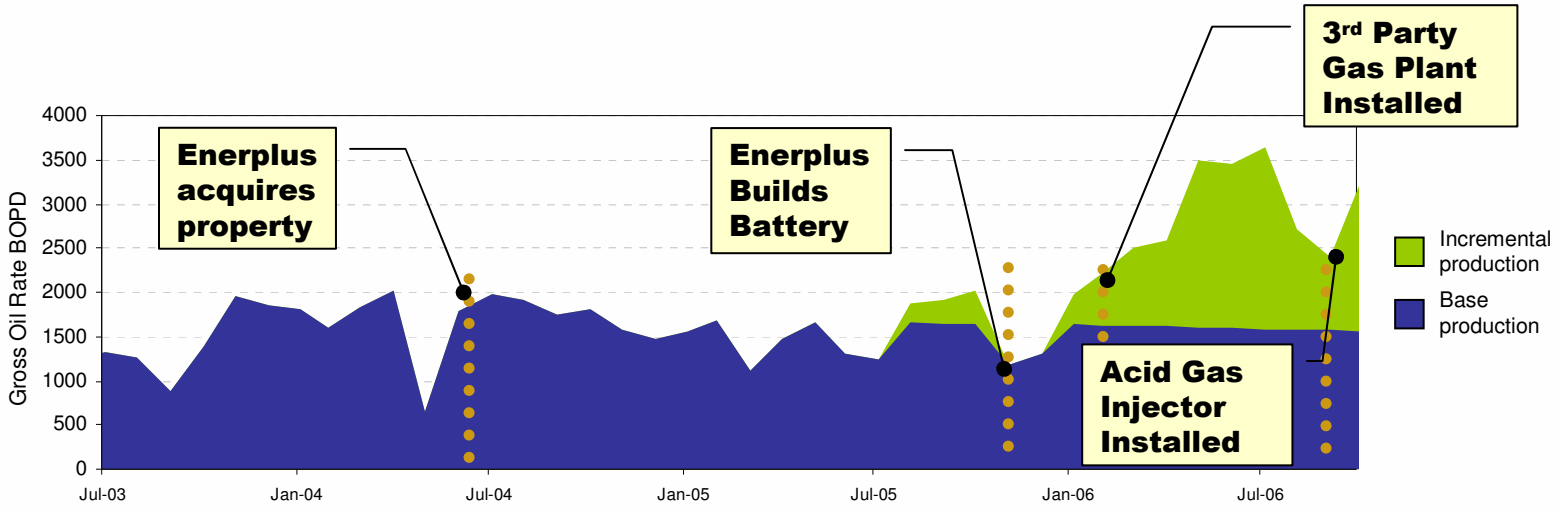


- 5 of ARC Energy Trust's major properties (MIPA, Lindale, Weir Hill, Ante Creek and Prestville) have been grouped in this chart, with the acquisition date normalized and represented by "0" years.
- In three years of owning these properties, ARC doubled the production. This is compared to the decline that would have been realized within a corporation.

Enhanced Productivity



- Bantry North property initially purchased in June, 2004 from ChevronTexaco
- Since 2000, Chevron had only drilled 7 wells on this property
- Enerplus Resources Fund identified significant investment opportunity and has drilled 11 wells since acquiring, investing $33.4 million
- Over 2,750 Barrels per day of new production added
- Significant investment opportunity with original oil in place of 51million barrel and only 9.8% recovery to date

Big Presence in Enhanced Oil Recovery

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- Large portion of Western Canada's conventional oil pools are amenable to Enhanced Oil Recovery (EOR). Potential is 3 to 9 billion barrels.

- Large portion of Alberta's mature conventional oil pools are owned and operated by royalty trusts.

- Trusts are owners and operators of many EOR floods in Alberta and Saskatchewan:

Swan Hills:	Pengrowth, ARC, Penn West
Pembina:	Penn West, ARC and Enerplus
Joffre:	Penn West
Redwater:	ARC, Penn West
Judy Creek:	Pengrowth
Weyburn:	Pengrowth, ARC, Penn West
Midale:	ARC, Enerplus, Penn West

- CO_2 EOR projects require low costs of capital due to the high CO_2 supply costs.

- CO_2 EOR projects provide a technical solution to green house gas reduction targets.

Flow Through Entities In The United States

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- The US did not shut down FTE's as they relate to resource industries.
- The US was faced with similar situation in the 1980's with a wide range of US businesses converting into publicly traded Master Limited Partnerships ("MLP's").
- Exception was made for the natural resources industries through a "Qualifying income exception" and a 10 year "Grandfather Rule" to preserve their cost of capital, to maintain sovereignty of the US energy industry and to encourage investment in US natural resources and energy infrastructure.
- MLP's in the US have continued to grow in size and number since 1987. A significant number of MLP's in pipelines, gathering and storage currently operate in the US. More recently, exploration, development and production limited liability corporations and partnerships have been created modeled after Canada's energy trust sector.
- The cost of capital disparity between US FTE's and Canadian trusts has widened significantly with the proposals. This could result in increasing foreign ownership of Canada's energy resources and infrastructure in the future.