

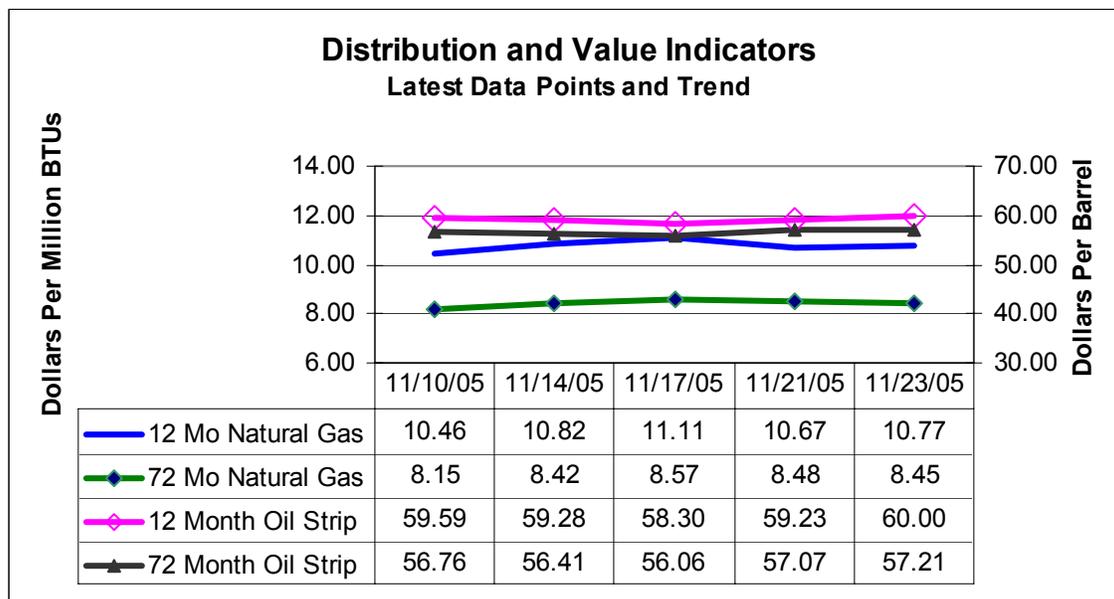
## Canadian Thanksgiving

### Summary and Recommendation

On the eve of the U.S. Thanksgiving holiday, Mr. Ralph Goodale, the Canadian Minister of Finance, dissolved the cloud of potential tax increases for income trusts including buy-recommended **Canadian Oil Sands Trust (COSWF)** and **PennWest Energy Trust (PWTF)**. The news, <http://www.fin.gc.ca/news05/05-082e.html>, is also favorable for **Enerplus Resources Fund (ERF)** and **Pengrowth Energy Trust (PGH)** in our research coverage. Mr. Goodale ended a process that had created uncertainty among investors (see *Canada Looks at Income Trusts*, <http://www.mcdep.com/rtweek50923.pdf>). To resolve the disparity of taxation of corporate and trust distributions, the Minister proposed to reduce the tax on corporate distributions rather than initiate a tax on trust distributions. With recent increases, latest declarations of Canadian trusts exceed a median rate of 10% a year while our estimated annual rate for U.S trusts approaches a median 11% for the next year. We also call attention to record natural gas price for the National Balancing Point in Great Britain.

### Oil and U.K. May Take North American Natural Gas Quotes Higher

Natural gas quotes are below oil-equivalent quotes (see table Distribution and Value Indicators). Not so in the U.K. where today's quote is \$28 a million btus. For next January, U.K. futures are near \$18, about 50% higher than in the U.S. Through internationally traded liquefied natural gas, U.K. price may become U.S. price.



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## Commodity Representation and Income Potential

Royalty Trusts appear to be priced in the stock market near Present Value that would yield a 7% real return on our current long-term assumptions of \$50 a barrel for oil and \$10 a million btu for natural gas (see table Rank by McDep Ratio). Because estimated Ebitda varies directly with expected commodity price for both U.S. and Canadian trusts, we use that measure for comparative ranking (see table Rank by Enterprise Value to Ebitda). Ten of the eleven trusts are half or more concentrated on natural gas (see column Natural Gas/Ebitda in table Rank by PV/Ebitda).

The two buy recommendations have lower McDep Ratios and more stock market liquidity. Investors might judge the remaining trusts by McDep Ratio. We usually think 0.8 is generally quite attractive; 1.0, reasonable and 1.2, a little rich. At the same time we appear to be in a rising commodity price trend that can cause the denominator of the McDep Ratio to increase, thereby lowering the whole range of McDep Ratios.

Kurt H. Wulff, CFA

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

	Symbol/ Rating	Price (\$/sh) 24-Nov 2005	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio
<b>U.S. Royalty Trusts</b>							
Cross Timbers Royalty Trust	CRT	50.41	6.0	300	45.00		1.12
Sabine Royalty Trust	SBR	46.80	14.6	680	42.00		1.11
San Juan Basin Royalty Trust	SJT	H 43.80	46.6	2,040	40.00		1.09
Permian Basin RT (57%)	PBT	16.33	26.6	430	15.00		1.09
Hugoton RoyaltyTrust (46%)	HGT	35.55	18.4	650	34.00		1.05
Dorchester Minerals, L.P.	DMLP	26.77	28.2	760	26.00		1.03
Mesa RoyaltyTrust	MTR	69.89	1.9	130	75.00		0.93
	<i>Total or Median</i>			<i>5,000</i>			<i>1.09</i>
<b>Canadian Income Trusts</b>							
Pengrowth Energy Trust	PGH	22.84	159.0	3,630	20.00	0.15	1.12
Penn West Energy Trust	PWTFF	B 30.67	179.1	5,490	28.00	0.15	1.08
Enerplus Resources Fund	ERF	43.58	110.0	4,790	42.00	0.14	1.03
Canadian Oil Sands Trust (US\$)	COSWF	B 101.77	93.1	9,470	136.00	0.11	0.78
	<i>Total or Median</i>			<i>23,400</i>		<i>0.14</i>	<i>1.06</i>

B = Buy, H = Hold

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.

	Symbol/ Rating	Price (\$/sh) 24-Nov 2005	Adjstd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)
<b>U.S. Royalty Trusts</b>							
Cross Timbers Royalty Trust	CRT	50.41	18.8	10.3	11.5	11.7	8.5
Mesa RoyaltyTrust	MTR	69.89	20.0	9.3	8.6	9.3	10.8
Sabine Royalty Trust	SBR	46.80	11.6	8.6	9.5	9.5	10.5
Permian Basin RT (57%)	PBT	16.33	14.9	7.9	8.6	9.3	10.8
Dorchester Minerals, L.P.	DMLP	26.77	11.6	7.8	8.0	11.3	12.3
San Juan Basin Royalty Trust	SJT	H 43.80	12.1	7.7	8.4	9.1	11.0
Hugoton RoyaltyTrust (46%)	HGT	35.55	13.6	6.6	6.9	9.0	11.1
	<i>Median</i>		<i>13.6</i>	<i>7.9</i>	<i>8.6</i>	<i>9.3</i>	<i>10.8</i>
<b>Canadian Income Trusts</b>							
Canadian Oil Sands Trust (US\$)	COSWF	B 101.77	20.0	12.3	9.5	11.3	3.3
Pengrowth Energy Trust	PGH	22.84	7.6	5.5	6.2	8.9	11.1
Enerplus Resources Fund	ERF	43.58	8.6	5.5	5.7	8.5	9.8
Penn West Energy Trust	PWTFF	B 30.67	8.0	4.9	5.3	7.8	10.3
	<i>Median</i>		<i>8.3</i>	<i>5.5</i>	<i>5.9</i>	<i>8.7</i>	<i>10.0</i>

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended December 31, 2006; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

### Natural Gas and Oil Royalty Trusts

#### Rank by PV/Ebitda: Present Value to Earnings Before Interest, Tax, Deprec.

	Symbol	Total Present Value (\$mm)	Unit Present Value (\$/mcf)	Natural Gas/ Reserves (bcf)	Adjusted Reserves/ Production (%)	Adjusted Reserves/ Production NTM	Revenue Royalty (%)	PV/ Ebitda
<b>U.S. Royalty Trusts</b>								
Cross Timbers Royalty Trust	CRT	270	4.30	63	77	18.8	85	10.3
Mesa RoyaltyTrust	MTR	140	3.23	43	82	20.0	-	9.3
Sabine Royalty Trust	SBR	612	4.90	125	70	11.6	100	8.6
Permian Basin RT (57%)	PBT	399	3.20	125	50	14.9	30	7.9
Dorchester Minerals, L.P.	DMLP	734	4.98	147	82	11.6	54	7.8
San Juan Basin Royalty Trust	SJT	1,864	3.70	504	99	12.1	-	7.7
Hugoton RoyaltyTrust (46%)	HGT	626	3.70	169	94	13.6	-	6.6
	<i>Total or Median</i>	<i>4,600</i>		<i>1,200</i>		<i>13.6</i>		<i>7.9</i>
<b>Canadian Income Trusts</b>								
Canadian Oil Sands Trust (US\$)	COSWF	14,274	3.90	3,660	(8)	20.0	-	12.3
Pengrowth Energy Trust	PGH	3,759	4.50	835	47	7.6	-	5.5
Enerplus Resources Fund	ERF	5,358	3.90	1,374	54	8.6	-	5.5
Penn West Energy Trust	PWTFF	5,874	3.18	1,847	53	8.0	-	4.9
	<i>Total or Median</i>	<i>29,300</i>		<i>7,700</i>		<i>8.3</i>		<i>5.5</i>

PV = Present Value of oil and gas and other businesses  
Ebitda = Earnings before interest, tax, depreciation and amortization

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