

## Rising Replacement Cost

### Summary and Recommendation

One of the startling dynamics of residential real estate is how much an old house in a desirable area appreciates rather than depreciates in value. Rising replacement cost that magnifies the value of an old house is also driving oil higher. Apparently the cost of expanding an oil sands mine and upgrader would cost 50% more than estimated a year ago according to the partners in the third largest Canadian facility owned 60% by Shell Canada (SHC.TO) and 20% each by **Chevron (CVX)** and Western Oil Sands (WTO.TO). The escalation is money in the bank for income stock buy-recommendation **Canadian Oil Sands Trust (COSWF)**, 35% owner of Syncrude, the largest facility that is two expansions ahead of Shell and one ahead of **Suncor (SU)**. Restarting in a few days, the just-completed Syncrude expansion has little further construction cost risk. Rising replacement cost tends to make all existing oil and gas production more valuable.

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

	<i>Symbol/ Rating</i>	<i>Price (\$/sh) 6-Jul 2006</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>	
<b>U.S. Royalty Trusts</b>								
Cross Timbers Royalty Trust	CRT	45.55	6.0	270	46.00	-	0.99	
Sabine Royalty Trust	SBR	43.99	14.6	640	45.00	-	0.98	
San Juan Basin Royalty Trust	SJT	B	38.15	46.6	1,780	40.00	-	0.95
Dorchester Minerals, L.P.	DMLP		25.47	28.2	720	27.00	-	0.94
Permian Basin RT	PBT		15.54	46.6	720	16.50	-	0.94
Hugoton RoyaltyTrust	HGT		29.39	40.0	1,180	34.00	-	0.86
Mesa RoyaltyTrust	MTR		62.65	1.9	120	75.00	-	0.84
	<i>Total or Median</i>			<i>5,400</i>				<i>0.94</i>
<b>Canadian Income Trusts (US\$)</b>								
Pengrowth Energy Trust	PGH		24.28	161.0	3,910	20.00	0.15	1.18
Enerplus Resources Fund	ERF		55.55	123.1	6,840	47.00	0.11	1.16
Penn West Energy Trust	PWE	B	39.98	244.2	9,760	39.00	0.12	1.02
Canadian Oil Sands Trust	COSWF	B	30.53	464.1	14,170	35.00	0.10	0.88
	<i>Total or Median</i>				<i>34,700</i>		<i>0.11</i>	<i>1.09</i>

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.

	Symbol/ Rating	Price (\$/sh) 6-Jul 2006	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	45.55	13.7	12.5	12.4	12.9	7.8
San Juan Basin Royalty Trust	SJT B	38.15	13.6	12.4	11.8	13.5	7.4
Sabine Royalty Trust	SBR	43.99	10.2	11.0	10.8	10.8	9.3
Dorchester Minerals, L.P.	DMLP	25.47	8.2	11.1	10.5	16.8	8.9
Mesa RoyaltyTrust	MTR	62.65	20.1	12.1	10.1	11.1	9.0
Permian Basin RT	PBT	15.54	7.8	9.6	9.1	9.9	10.1
Hugoton RoyaltyTrust	HGT	29.39	13.8	10.3	8.9	12.9	7.7
	<i>Median</i>		<i>13.6</i>	<i>11.1</i>	<i>10.5</i>	<i>12.9</i>	<i>8.9</i>
<b>Canadian Income Trusts (US\$)</b>							
Canadian Oil Sands Trust	COSWF B	30.53	25.1	10.4	9.2	11.6	6.2
Enerplus Resources Fund	ERF	55.55	9.4	7.2	8.4	16.0	8.2
Pengrowth Energy Trust	PGH	24.28	7.5	6.5	7.7	13.4	11.1
Penn West Energy Trust	PWE B	39.98	7.9	6.9	7.1	9.8	9.2
	<i>Median</i>		<i>8.6</i>	<i>7.1</i>	<i>8.1</i>	<i>12.5</i>	<i>8.7</i>

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended June 30, 2007; 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

	Symbol	Revenue Royalty (%)	Natural Gas/ Ebitda (%)	Dist/ Ebitda	Dist/ Equity Ebitda	NTM Distribution (\$mm)	Dist. Yield (\$/un)	Dist. Yield (%)
<b>U.S. Royalty Trusts</b>								
San Juan Basin Royalty Trust	SJT	-	98	0.88	0.88	132	2.82	7.4
Hugoton RoyaltyTrust	HGT	-	89	0.69	0.69	91	2.27	7.7
Cross Timbers Royalty Trust	CRT	81	63	0.96	0.96	21	3.54	7.8
Dorchester Minerals, L.P.	DMLP	56	71	0.93	0.93	64	2.26	8.9
Mesa RoyaltyTrust	MTR	-	70	0.91	0.91	11	5.64	9.0
Sabine Royalty Trust	SBR	100	47	1.00	1.00	60	4.08	9.3
Permian Basin RT	PBT	29	32	0.91	0.91	73	1.57	10.1
	<i>Total or Median</i>		<i>70</i>	<i>0.91</i>	<i>0.91</i>	<i>500</i>		<i>8.9</i>
<b>Canadian Income Trusts (US\$)</b>								
Canadian Oil Sands Trust	COSWF	-	(7)	0.51	0.56	877	1.89	6.2
Enerplus Resources Fund	ERF	-	43	0.62	0.69	558	4.54	8.2
Penn West Energy Trust	PWE	-	37	0.57	0.65	897	3.67	9.2
Pengrowth Energy Trust	PGH	-	35	0.75	0.88	435	2.70	11.1
	<i>Total or Median</i>		<i>36</i>	<i>0.60</i>	<i>0.67</i>	<i>2,800</i>		<i>8.7</i>
Kinder Morgan Energy Partners	KMP			0.80	1.79			7.0

NTM = Next Twelve Months Ended June 30, 2007

Ebitda = Earnings before interest, tax, depreciation and amortization

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