

Commodity Trumps Politics

Summary and Recommendation

The global commodity forces behind our vision of oil at \$150 a barrel in 2010 appear to be strong whether the Republicans or now the Democrats control the U.S. House and Senate. There is little our new legislative leaders are likely to do to lower oil and gas price while some may put misplaced negative emphasis on oil and gas profits. We would like to see more stringent environmental standards globally for the sake of our planet. We see the most cost effective energy/environment outcome as a shift from coal burning to coal gasification along with more natural gas and refined oil products in a high price environment that induces economically driven conservation and alternate energy. Income stocks offer direct commodity exposure with the taxation unchanged for U.S. stocks and under attack in Canada. “Flaherty’s Folly” did its stock market damage in just a few days to the point where the Canadian income stocks in our coverage are attractively valued without consideration of income features.

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) 9-Nov 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>	
U.S. Royalty Trusts								
Sabine Royalty Trust	SBR	51.39	14.6	750	45.00	-	1.14	
Cross Timbers Royalty Trust	CRT	48.50	6.0	290	46.00	-	1.05	
Permian Basin RT	PBT	16.47	46.6	770	16.50	-	1.00	
San Juan Basin Royalty Trust	SJT	B	38.35	46.6	1,790	40.00	-	0.96
Dorchester Minerals, L.P.	DMLP	24.49	28.2	690	27.00	-	0.91	
Hugoton RoyaltyTrust	HGT	27.42	40.0	1,100	34.00	-	0.81	
Mesa RoyaltyTrust	MTR	50.46	1.9	90	70.00	-	0.72	
	<i>Total or Median</i>			5,500			0.96	
Canadian Income Trusts (US\$)								
Enerplus Resources Fund	ERF	43.02	123.0	5,290	47.00	0.11	0.92	
Pengrowth Energy Trust	PGH	16.36	220.2	3,600	20.00	0.22	0.86	
Canadian Oil Sands Trust	COSWF	B	27.72	467.8	12,970	35.00	0.08	0.81
Penn West Energy Trust	PWE	B	29.99	246.0	7,380	39.00	0.13	0.80
	<i>Total or Median</i>			29,200		0.12	0.83	

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) 9-Nov 2006	Adjstd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)	
U.S. Royalty Trusts								
Sabine Royalty Trust	SBR	51.39		12.1	13.8	13.8	7.2	
Cross Timbers Royalty Trust	CRT	48.50		12.7	13.4	13.7	7.3	
Dorchester Minerals, L.P.	DMLP	24.49		12.2	11.0	17.8	8.5	
San Juan Basin Royalty Trust	SJT	B	38.35	11.3	10.8	13.5	7.4	
Permian Basin RT	PBT		16.47	10.8	10.8	13.4	7.4	
Mesa RoyaltyTrust	MTR		50.46	12.3	8.8	11.0	9.1	
Hugoton RoyaltyTrust	HGT		27.42	10.6	8.6	13.3	7.5	
	<i>Median</i>			<i>12.1</i>	<i>10.8</i>	<i>13.5</i>	<i>7.4</i>	
Canadian Income Trusts (US\$)								
Canadian Oil Sands Trust	COSWF	B	27.72	24.4	12.6	10.2	13.6	6.7
Enerplus Resources Fund	ERF		43.02	9.4	8.0	7.4	16.0	10.4
Penn West Energy Trust	PWE	B	29.99	8.0	8.6	6.8	11.9	12.0
Pengrowth Energy Trust	PGH		16.36	7.6	7.6	6.5	9.0	16.2
	<i>Median</i>			<i>8.7</i>	<i>8.3</i>	<i>7.1</i>	<i>12.7</i>	<i>11.2</i>

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended September 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)	NTM Distribution (\$/un)	Dist. Yield (%)
U.S. Royalty Trusts								
Sabine Royalty Trust	SBR	100	55	1.00	1.00	54	3.72	7.2
Cross Timbers Royalty Trust	CRT	81	69	0.98	0.98	21	3.55	7.3
San Juan Basin Royalty Trust	SJT	-	98	0.80	0.80	133	2.85	7.4
Permian Basin RT	PBT	29	35	0.80	0.80	57	1.23	7.4
Hugoton RoyaltyTrust	HGT	-	91	0.64	0.64	82	2.06	7.5
Dorchester Minerals, L.P.	DMLP	56	73	0.94	0.94	59	2.09	8.5
Mesa RoyaltyTrust	MTR	-	74	0.80	0.80	9	4.58	9.1
	<i>Total or Median</i>		<i>73</i>	<i>0.80</i>	<i>0.80</i>	<i>400</i>		<i>7.4</i>
Canadian Income Trusts (US\$)								
Canadian Oil Sands Trust	COSWF	-	(8)	0.62	0.67	870	1.86	6.7
Enerplus Resources Fund	ERF	-	43	0.67	0.76	549	4.46	10.4
Penn West Energy Trust	PWE	-	38	0.69	0.79	889	3.61	12.0
Pengrowth Energy Trust	PGH	-	41	0.79	1.01	585	2.66	16.2
	<i>Total or Median</i>		<i>40</i>	<i>0.68</i>	<i>0.77</i>	<i>2,900</i>		<i>11.2</i>
Kinder Morgan Energy Partners	KMP			0.75	1.70			7.2

NTM = Next Twelve Months Ended September 30, 2007

Ebitda = Earnings before interest, tax, depreciation and amortization

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