

## Energy Politics

### Summary and Recommendation

Amid the swirling of three political issues, the investment outlook appears favorable for Canadian buy recommendations **Canadian Oil Sands Trust (COSWF)** and **Penn West Energy Trust (PWE)**. First, the latest concrete development, last week's appointment of a panel of six experts, seems unlikely to lead to any change in the 25% royalty to the province of Alberta paid on oil sands after investment has been recovered. Second, renewed interest in limiting emissions of carbon dioxide need not be negative and could be positive for enhanced oil recovery projects that involve injecting CO2 underground. Third, the damage to stock price has been done by the proposed punitive double federal tax on existing oil and gas income trusts while the odds are improving that a compromise may restore most of the injury. As for our U.S. income stock buy recommendations, **San Juan Basin Royalty Trust (SJT)** and **Hugoton Royalty Trust (HGT)**, no changes in state taxation appear contemplated for SJT and HGT; global warming is an emerging positive for natural gas, in our opinion; and there have been no motions by the federal government to impose double taxation on royalty trusts for the last thirty years that we recall.

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) 22-Feb 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>
<b>U.S. Royalty Trusts</b>							
Cross Timbers Royalty Trust	CRT	44.32	6.0	270	46.00	-	0.96
Sabine Royalty Trust	SBR	42.25	14.6	620	45.00	-	0.94
Permian Basin RT	PBT	15.14	46.6	710	16.50	-	0.92
Dorchester Minerals, L.P.	DMLP	22.12	28.2	630	27.00	-	0.82
San Juan Basin Royalty Trust	SJT B	31.95	46.6	1,490	40.00	-	0.80
Mesa RoyaltyTrust	MTR	55.75	1.9	100	70.00	-	0.80
Hugoton RoyaltyTrust	HGT B	24.91	40.0	1,000	34.00	-	0.73
	<i>Total or Median</i>			<i>4,800</i>			<i>0.82</i>
<b>Canadian Income Trusts (US\$)</b>							
Enerplus Resources Fund	ERF	43.49	123.0	5,350	47.00	0.11	0.93
Pengrowth Energy Trust	PGH	17.56	241.0	4,230	20.00	0.27	0.91
Penn West Energy Trust	PWE B	31.20	239.0	7,460	39.00	0.13	0.83
Canadian Oil Sands Trust	COSWF B	23.07	479.0	11,050	35.00	0.08	0.69
	<i>Total or Median</i>			<i>28,100</i>		<i>0.12</i>	<i>0.87</i>

B = Buy

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

Historical independent energy investment analysis by Kurt Wulff doing business as McDep Associates is posted at [www.mcdep.com](http://www.mcdep.com). Analyses are prepared from sources and data believed to be reliable, but no representation is made as to their accuracy or completeness. Mr. Wulff is not paid by covered companies. Neither he nor his spouse trade a subject stock within a week before or after a change in rating.

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

	Symbol/ Rating	Price (\$/sh) 22-Feb 2007	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	44.32		12.9	12.5	12.7	7.9	
Sabine Royalty Trust	SBR	42.25		12.6	11.8	11.8	8.5	
Permian Basin RT	PBT	15.14		11.1	10.2	11.4	8.8	
Dorchester Minerals, L.P.	DMLP	22.12		11.8	9.7	15.3	8.9	
Mesa RoyaltyTrust	MTR	55.75		12.1	9.7	12.0	8.4	
San Juan Basin Royalty Trust	SJT	B	31.95	11.6	9.2	11.2	8.9	
Hugoton RoyaltyTrust	HGT	B	24.91	11.4	8.4	12.4	8.0	
	<i>Median</i>			11.8	9.7	12.0	8.5	
<b>Canadian Income Trusts (US\$)</b>								
Canadian Oil Sands Trust	COSWF	B	23.07	23.3	14.2	9.7	14.2	6.7
Enerplus Resources Fund	ERF		43.49	9.0	7.9	7.3	14.8	10.0
Penn West Energy Trust	PWE	B	31.20	8.1	8.8	7.3	13.1	11.2
Pengrowth Energy Trust	PGH		17.56	7.1	7.2	6.6	11.2	14.7
	<i>Median</i>			8.5	8.3	7.3	13.6	10.6

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended December 31, 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>								
Cross Timbers Royalty Trust	CRT	81	70	0.98	0.98	21	3.48	7.9
Hugoton RoyaltyTrust	HGT	-	90	0.67	0.67	80	2.00	8.0
Mesa RoyaltyTrust	MTR	-	77	0.81	0.81	9	4.66	8.4
Sabine Royalty Trust	SBR	100	57	1.00	1.00	52	3.59	8.5
Permian Basin RT	PBT	29	37	0.89	0.89	62	1.33	8.8
Dorchester Minerals, L.P.	DMLP	56	75	0.85	0.85	55	1.96	8.9
San Juan Basin Royalty Trust	SJT	-	98	0.83	0.83	133	2.86	8.9
	<i>Total or Median</i>		75	0.85	0.85	400		8.5
<b>Canadian Income Trusts (US\$)</b>								
Canadian Oil Sands Trust	COSWF	-	(10)	0.58	0.63	741	1.55	6.7
Enerplus Resources Fund	ERF	-	50	0.65	0.73	533	4.33	10.0
Penn West Energy Trust	PWE	-	41	0.69	0.79	839	3.51	11.2
Pengrowth Energy Trust	PGH	-	43	0.69	0.93	622	2.58	14.7
	<i>Total or Median</i>		42	0.67	0.76	2,700		10.6
Kinder Morgan Energy Partners	KMP			0.79	1.71			6.5

NTM = Next Twelve Months Ended December 31, 2007

Ebitda = Earnings before interest, tax, depreciation and amortization

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