

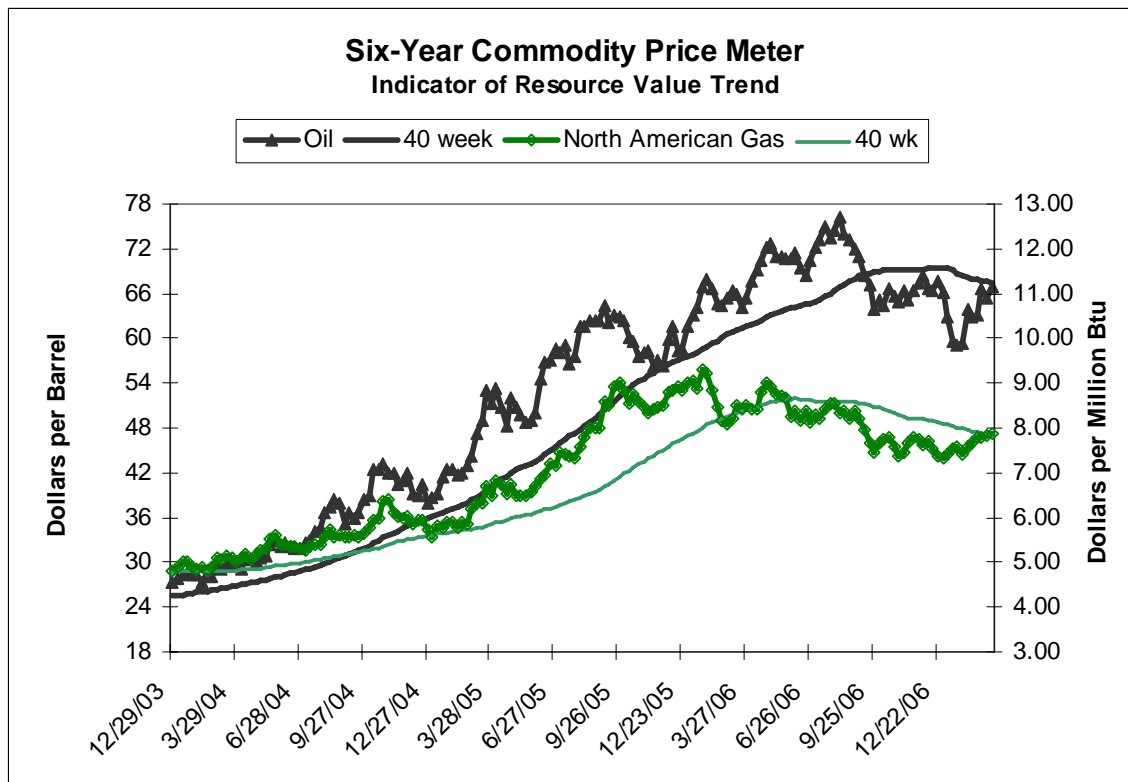
## Bull Market in Long-Term Natural Gas

### Summary and Recommendation

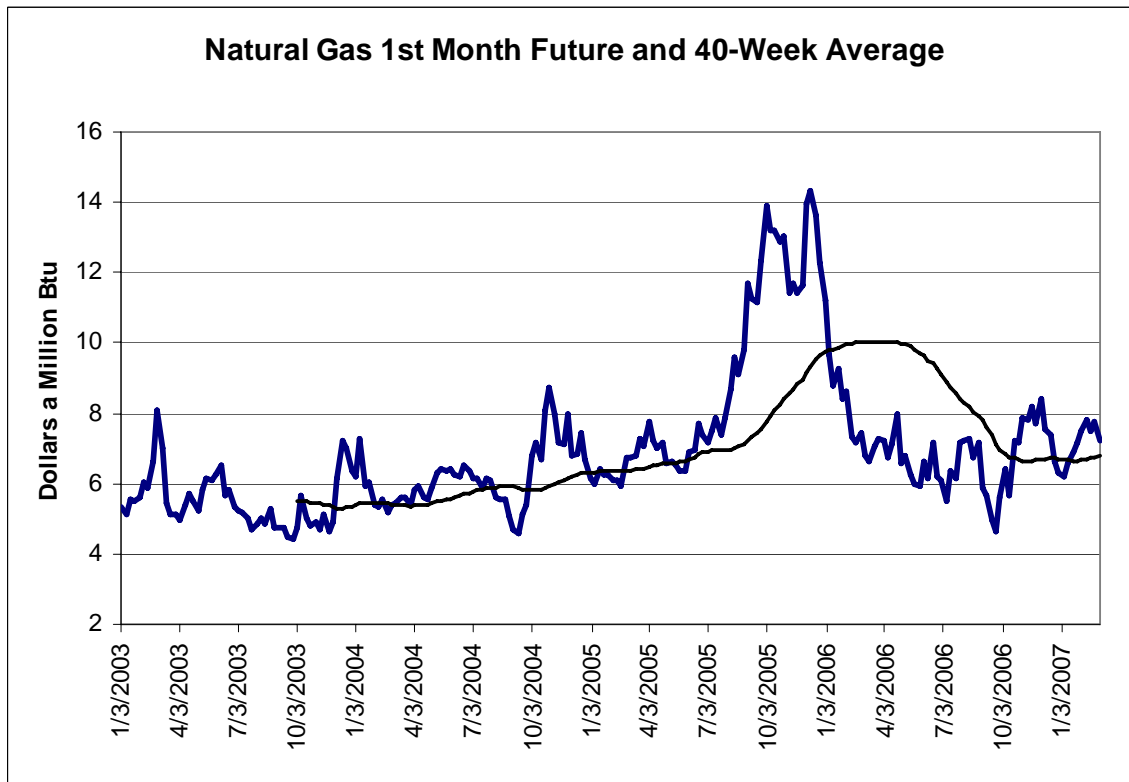
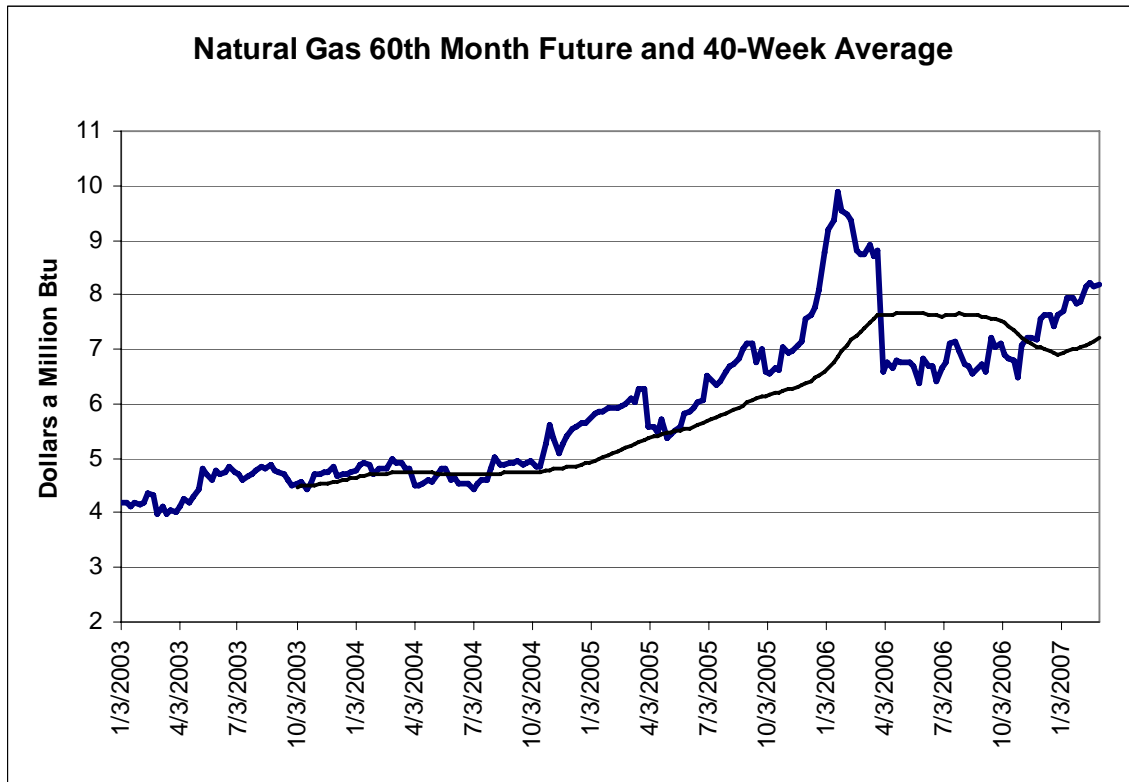
Six-year natural gas futures crossed above the 40-week average in the past few days defining an upward price trend for the commodity by that measure and, we believe, indicating a profitable outlook for producers (see graphic Six-Year Commodity Meter). The latest closing quote for delivery over the next 72 months is \$7.87 a million btu compared to the 40-week average of \$7.85 on the measure that we calculate from New York Mercantile Exchange quotes. While that looks close, a separate plot of the 60<sup>th</sup> month future using data from Bloomberg traces an apparent strong, well-defined upward trend (see graphic Natural Gas 60<sup>th</sup> Month Future). In contrast, a separate plot of the 1<sup>st</sup>, or near-month, future that is widely quoted in the media traces a more moderate, less well-defined upward trend (see graphic Natural Gas 1<sup>st</sup> Month Future). Energy producer income stocks in our weekly coverage with annual distributions from 8.9% to 15.2% return enough to justify investor interest without price appreciation. Yet, in our opinion, the long-term price trend could carry natural gas past \$10 a million btu thus pointing to appreciation potential in natural gas income stocks in addition to distributions.

*After publishing the above comments we add a technical appendix to clarify the charts displayed on page 2. Seasonality may make the price trend for the 60<sup>th</sup> month natural gas future look better than if the seasonality were to be normalized.*

Kurt H. Wulff, CFA



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

	Symbol/ Rating	Price (\$/sh) 8-Mar 2007	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/un)	Debt/ Present Value	McDep Ratio
<b>U.S. Royalty Trusts</b>							
Sabine Royalty Trust	SBR	41.58	14.6	610	45.00	-	0.92
Cross Timbers Royalty Trust	CRT	41.72	6.0	250	46.00	-	0.91
Permian Basin RT	PBT	13.95	46.6	650	16.50	-	0.85
Dorchester Minerals, L.P.	DMLP	21.35	28.2	600	27.00	-	0.79
San Juan Basin Royalty Trust	SJT B	30.84	46.6	1,440	40.00	-	0.77
Mesa RoyaltyTrust	MTR	53.59	1.9	100	70.00	-	0.77
Hugoton RoyaltyTrust	HGT B	23.95	40.0	960	34.00	-	0.70
<i>Total or Median</i>				4,600			0.79
<b>Canadian Income Trusts (US\$)</b>							
Pengrowth Energy Trust	PGH	16.68	241.0	4,020	17.00	0.25	0.99
Enerplus Resources Fund	ERF	41.55	123.0	5,110	47.00	0.11	0.90
Penn West Energy Trust	PWE B	28.64	239.5	6,860	36.00	0.14	0.82
Canadian Oil Sands Trust	COSWF B	23.39	479.0	11,200	35.00	0.08	0.69
<i>Total or Median</i>				27,200		0.13	0.86

B = Buy

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

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

	Symbol/ Rating	Price (\$/sh) 8-Mar 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	41.72		12.2	11.0	11.3	8.9
Sabine Royalty Trust	SBR	41.58		11.9	11.0	11.0	9.1
Permian Basin RT	PBT	13.95		10.4	8.8	9.8	10.2
Mesa RoyaltyTrust	MTR	53.59		11.4	8.7	10.6	9.4
Dorchester Minerals, L.P.	DMLP	21.35		11.0	8.7	13.4	10.6
San Juan Basin Royalty Trust	SJT B	30.84		10.5	8.1	9.6	10.4
Hugoton RoyaltyTrust	HGT B	23.95		10.7	7.6	10.6	9.4
<i>Median</i>				11.0	8.7	10.6	9.4
<b>Canadian Income Trusts (US\$)</b>							
Canadian Oil Sands Trust	COSWF B	23.39	22.0	11.8	8.2	10.9	7.6
Pengrowth Energy Trust	PGH	16.68	7.4	7.6	7.5	25.3	15.2
Enerplus Resources Fund	ERF	41.55	9.0	7.2	6.4	11.7	10.3
Penn West Energy Trust	PWE B	28.64	7.5	7.7	6.3	12.9	12.1
<i>Median</i>				8.2	7.7	7.0	12.3

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended March 31, 2008; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

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**Natural Gas and Oil Royalty Trusts  
Rank by NTM Distribution Yield**

	<i>Symbol</i>	<i>Revenue Royalty (%)</i>	<i>Natural Gas/ Ebitda (%)</i>	<i>Dist/ Ebitda</i>	<i>Dist/ Equity Ebitda</i>	<i>NTM Distribution (\$mm)</i>	<i>NTM Distribution (\$/un)</i>	<i>Dist. Yield (%)</i>	
<b>U.S. Royalty Trusts</b>									
	Cross Timbers Royalty Trust	CRT	81	70	0.98	0.98	22	3.71	8.9
	Sabine Royalty Trust	SBR	100	56	1.00	1.00	55	3.78	9.1
	Hugoton Royalty Trust	HGT	-	90	0.71	0.71	90	2.25	9.4
	Mesa Royalty Trust	MTR	-	76	0.82	0.82	9	5.04	9.4
	Permian Basin RT	PBT	29	36	0.90	0.90	67	1.43	10.2
	San Juan Basin Royalty Trust	SJT	-	98	0.84	0.84	149	3.20	10.4
	Dorchester Minerals, L.P.	DMLP	56	75	0.92	0.92	64	2.25	10.6
	<i>Total or Median</i>			75	0.90	0.90	500		9.4
<b>Canadian Income Trusts (US\$)</b>									
	Canadian Oil Sands Trust	COSWF	-	(10)	0.55	0.60	852	1.78	7.6
	Enerplus Resources Fund	ERF	-	49	0.58	0.65	525	4.27	10.3
	Penn West Energy Trust	PWE	-	41	0.63	0.74	828	3.46	12.1
	Pengrowth Energy Trust	PGH	-	46	0.86	1.14	613	2.54	15.2
	<i>Total or Median</i>			43	0.61	0.70	2,800		11.2
	Kinder Morgan Energy Partners	KMP			0.79	1.71			6.6

NTM = Next Twelve Months Ended March 31, 2008

Ebitda = Earnings before interest, tax, depreciation and amortization

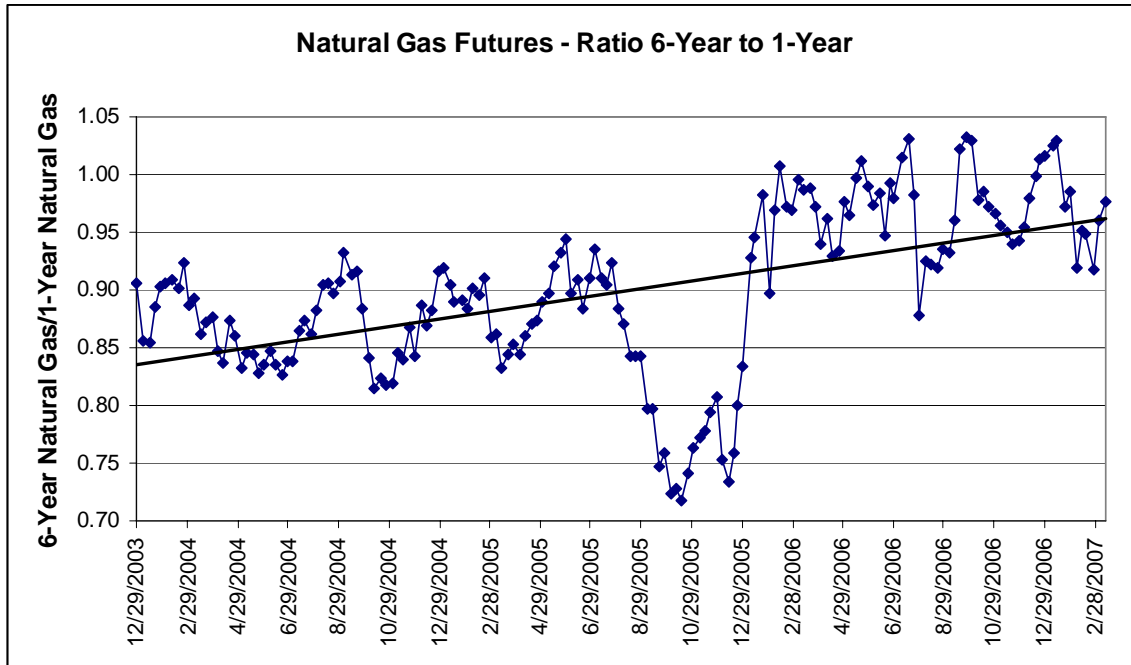
**Appendix**

**Technical Qualification for Single Month Generic Futures**

There is an upward trend in longer-term natural gas futures compared to shorter-term, but not by as great a difference as suggested in the charts we used on page 2. Seasonality may distort the trend in single month generic futures. While the 60<sup>th</sup> month is currently March 2012, it will be April 2012 in a few more weeks. April 2012 is quoted about a dollar less than March 2012. As a result, the chart of the 60<sup>th</sup> Month Future is likely to drop by that much by next month.

Our normal focus on six-year and one-year averages neutralizes seasonal differences. The discount of 6-year to 1-year, also known as backwardation in commodity price jargon, has narrowed over the past several years (see chart Natural Gas Futures Ratio). We think that is a continuing trend though there can be wide deviations because 1-year futures are more volatile depending on weather and other temporary factors.

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