

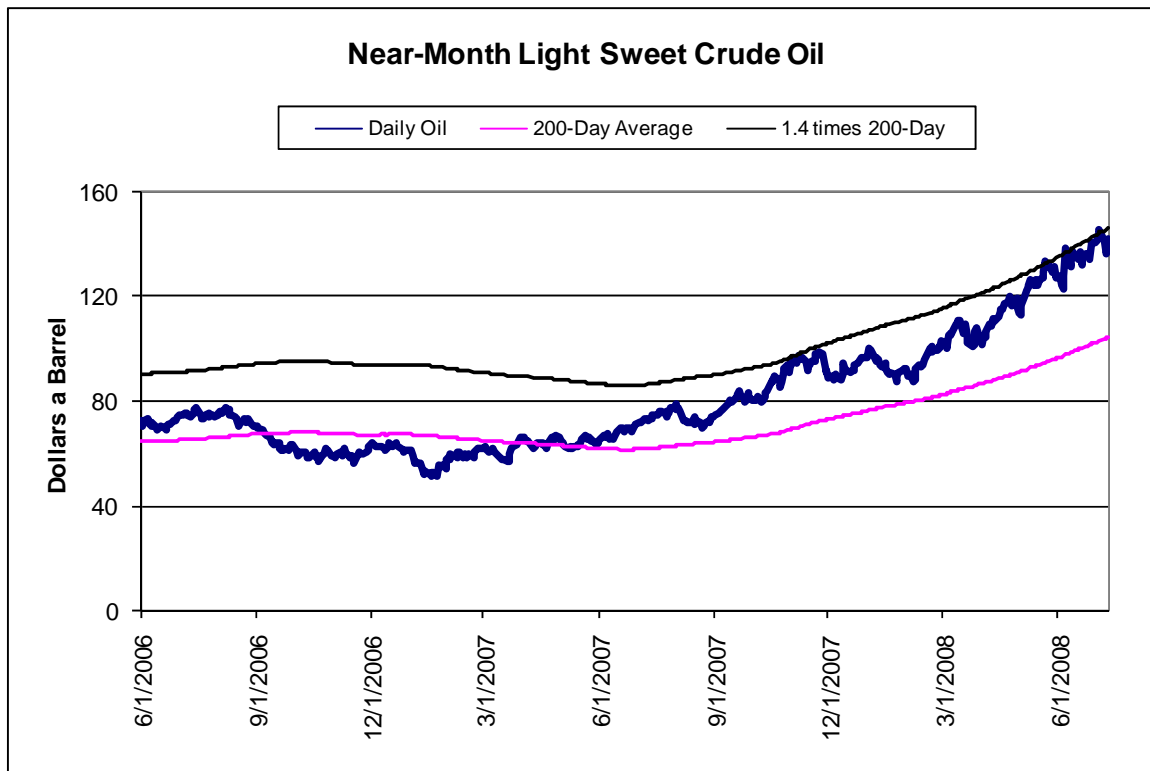


## Oil Price Trend Up

### Summary and Recommendation

A positive trend for oil price drives investment value in buy-recommended Canadian income stocks **Canadian Oil Sands Trust (COSWF)** and **Penn West Energy Trust (PWE)**. Near-month futures price continues to bump against an upper limit at 40% above the 200-day average (see chart [Near-Month Light Sweet Crude Oil](#)). Though the trend may point to higher price, we stick with \$150 in 2010 as a sustainable level. A potential punitive windfall profits tax that would unfairly discriminate against U.S. producers may drive up oil price further to the benefit of Canadian and non-U.S. producers. With higher Alberta royalties taking effect next year in most cases, Canadian producers may be free of additional tax increases for awhile. Conversely, at some point oil price may fall back to settle around the 200-day average, currently \$105 a barrel, as has happened in the past. Our protection on the downside is that at McDep Ratios of 0.90 and 0.84 the stocks are priced for oil at perhaps \$90 and \$84 respectively. We regard COSWF as a unique, high-quality long-term asset while we expect PWE to be a profitable, well-run conventional oil producer as it integrates recent acquisitions.

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Source: Bloomberg, New York Mercantile Exchange, McDep LLC

# Oil and Gas Income Stocks

A Weekly Analysis

July 11, 2008



Natural Gas and Oil Income Stocks - Rank by McDep Ratio								
			Price (\$/sh)	Shares	Market Cap (\$mm)	Net Present Value (\$/un)	Debt/ Present Value	McDep Ratio
	Symbol/ Rating		10-Jul 2008	(mm)				
<b>U.S. Royalty Trusts</b>								
Sabine Royalty Trust	SBR		68.05	14.6	990	60.00	-	1.13
Cross Timbers Royalty Trust	CRT		60.14	6.0	360	57.00	-	1.06
Permian Basin RT	PBT		23.58	46.6	1,100	23.00	-	1.03
San Juan Basin Royalty Trust	SJT	B	41.70	46.6	1,940	48.00	-	0.87
Mesa RoyaltyTrust	MTR		78.67	1.9	150	93.00	-	0.85
Hugoton RoyaltyTrust	HGT	B	32.61	40.0	1,300	42.00	-	0.78
<i>Total or Median</i>					5,800			0.95
<b>Canadian Income Trusts (US\$)</b>								
Canadian Oil Sands Trust	COSWF	B	50.82	479.0	24,340	57.00	0.04	0.90
Penn West Energy Trust	PWE	B	31.65	376.8	11,930	40.00	0.25	0.84
Pengrowth Energy Trust	PGH		18.65	247.0	4,610	24.00	0.25	0.83
Enerplus Resources Fund	ERF		43.87	153.0	6,710	63.00	0.14	0.74
<i>Total or Median</i>					47,600		0.19	0.84
<b>U.S. Master Limited Partnerships (MLPs)</b>								
Kinder Morgan Energy Partners, L.P.	KMP	S	56.66	189.1	10,720	17.00	0.57	2.01
Encore Energy Partners, L.P. (32%)	ENP		26.88	10.2	270	26.00	0.18	1.03
Dorchester Minerals, L.P.	DMLP		33.03	28.2	930	33.00	-	1.00
Linn Energy, LLC	LINE		23.00	114.0	2,620	35.00	0.38	0.79
<i>Total or Median</i>					14,500		0.28	1.01
B = Buy, S = Sell								
McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses								
Present Value presumes long-term prices of \$100 a barrel for oil and \$14 a million btu for natural gas.								

Natural Gas and Oil Income Stocks - Rank by EV/Ebitda								
			Price (\$/sh)	Adjstd Resrvs/ Prod	PV/ Ebitda	EV/ Ebitda	P/E	Divd or Distrib NTM
	Symbol/ Rating		10-Jul 2008	NTM	NTM	NTM	NTM	(%)
<b>U.S. Royalty Trusts</b>								
Cross Timbers Royalty Trust	CRT		60.14	13.9	8.0	8.5	8.9	11.2
Sabine Royalty Trust	SBR		68.05	9.1	7.4	8.4	8.4	11.9
Mesa RoyaltyTrust	MTR		78.67	21.1	8.1	6.8	7.8	12.9
San Juan Basin Royalty Trust	SJT	B	41.70	10.4	7.7	6.7	8.2	12.2
Permian Basin RT	PBT		23.58	8.4	6.5	6.6	7.0	14.4
Hugoton RoyaltyTrust	HGT	B	32.61	13.2	7.3	5.6	8.1	12.4
<i>Median</i>				11.8	7.6	6.8	8.1	12.3
<b>Canadian Income Trusts (US\$)</b>								
Canadian Oil Sands Trust	COSWF	B	50.82	22.0	7.3	6.6	7.3	13.3
Pengrowth Energy Trust	PGH		18.65	8.9	5.3	4.4		14.2
Enerplus Resources Fund	ERF		43.87	9.6	5.6	4.1	6.2	11.3
Penn West Energy Trust	PWE	B	31.65	7.2	4.7	4.0	8.2	14.5
<i>Median</i>				9.2	5.5	4.3	7.3	13.7
<b>U.S. Master Limited Partnerships (MLPs)</b>								
Kinder Morgan Energy Partners, L.P.	KMP	S	56.66	8.0	7.4	14.8	21.9	6.5
Dorchester Minerals, L.P.	DMLP		33.03	8.5	7.9	7.9	9.9	12.7
Linn Energy, LLC	LINE		23.00	17.4	8.7	6.8		11.0
Encore Energy Partners, L.P.	ENP		26.88	12.4	5.9	6.1		8.6
<i>Median</i>				10.4	7.6	7.4	15.9	9.8
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended June 30, 2009; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses								

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Natural Gas and Oil Income Stocks - Rank by NTM Distribution Yield								
		Revenue	Natural Gas/ Ebitda	Dist/ Ebitda	Dist/ Equity Ebitda	NTM Distribution (\$mm)	Dist. Yield	
	Symbol	Royalty (%)	(%)					
<b>U.S. Royalty Trusts</b>								
Cross Timbers Royalty Trust	CRT	84	71	0.95	0.95	40	6.75	11.2
Sabine Royalty Trust	SBR	100	57	1.00	1.00	118	8.11	11.9
San Juan Basin Royalty Trust	SJT	-	99	0.82	0.82	237	5.09	12.2
Hugoton Royalty Trust	HGT	-	88	0.70	0.70	161	4.03	12.4
Mesa Royalty Trust	MTR	-	67	0.88	0.88	19	10.12	12.9
Permian Basin RT	PBT	32	35	0.95	0.95	158	3.38	14.4
	<i>Total or Median</i>		69	0.91	0.91	700		12.3
<b>Canadian Income Trusts (US\$)</b>								
Enerplus Resources Fund	ERF	-	48	0.38	0.44	756	4.94	11.3
Canadian Oil Sands Trust	COSWF	-	(8)	0.83	0.87	3,230	6.74	13.3
Pengrowth Energy Trust	PGH	-	38	0.44	0.59	653	2.65	14.2
Penn West Energy Trust	PWE	-	34	0.40	0.54	1,726	4.58	14.5
	<i>Total or Median</i>		36	0.42	0.56	6,400		13.7
<b>U.S. Master Limited Partnerships (MLPs)</b>								
Kinder Morgan Energy Partners, L.P.	KMP		-	0.69	1.60	696	3.68	6.5
Encore Energy Partners, L.P.	ENP		18	0.43	0.52	23	2.30	8.6
Linn Energy, LLC	LINE		57	0.39	0.62	287	2.52	11.0
Dorchester Minerals, L.P.	DMLP	64	73	1.00	1.00	118	4.18	12.7
	<i>Total or Median</i>		37	0.56	0.81	1,100		9.8
NTM = Next Twelve Months Ended June 30, 2009								
Ebitda = Earnings before interest, tax, depreciation and amortization								

**Disclaimer:** This analysis was prepared by Kurt Wulff, Manager of McDep LLC as of January 1, 2008. Previously Mr. Wulff was doing business as McDep Associates. The firm used sources and data believed to be reliable, but makes no representation as to their accuracy or completeness. This analysis is intended for informational purposes and is not a solicitation to buy or sell a security. Past performance is no guarantee of future results.

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