

Poised to Win

Summary and Recommendation

Underperforming since Hurricane Katrina for natural gas and Flaherty's Folly for Canadian issues, oil and gas income stocks may be ready for renewed gains as oil price momentum strengthens, natural gas appears timely before winter, financial strength is high and Wall Street has new incentives to promote oil and gas income. Expected initial public offerings of master limited partnerships would pay financial intermediaries to market investment ideas that also reflect favorably on existing issues. Buy-recommended **Canadian Oil Sands Trust (COSWF)** offers longest life at the same time it generates record cash flow in its first complete quarter of operating at newly built capacity and oil price is climbing. Buy-recommendations **San Juan Basin Royalty Trust (SJT)** and **Hugoton Royalty Trust (HGT)** along with natural gas the commodity have built a long price "base" from which new extended gains may spring. Few securities offer the 13% annual distribution yield of buy-recommended **Penn West Energy Trust (PWE)** with the fundamental backing of high current cash flow and long-term oil potential. Finally, we like all the remaining U.S. royalty trusts in a conservative income portfolio as a superior alternative to government bonds.

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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-Sep 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>	
U.S. Royalty Trusts								
Sabine Royalty Trust	SBR	43.40	14.6	630	45.00	-	0.96	
Cross Timbers Royalty Trust	CRT	43.05	6.0	260	46.00	-	0.93	
Permian Basin RT	PBT	14.34	46.6	670	16.50	-	0.87	
Mesa RoyaltyTrust	MTR	60.25	1.9	110	70.00	-	0.86	
San Juan Basin Royalty Trust	SJT	B	32.90	46.6	1,530	40.00	-	0.82
Dorchester Minerals, L.P.	DMLP	20.64	28.2	580	27.00	-	0.76	
Hugoton RoyaltyTrust	HGT	B	23.43	40.0	940	34.00	-	0.69
<i>Total or Median</i>					4,700		0.86	
Canadian Income Trusts (US\$)								
Pengrowth Energy Trust	PGH	17.25	246.0	4,240	17.00	0.26	1.01	
Enerplus Resources Fund	ERF	43.61	128.0	5,580	52.00	0.12	0.86	
Penn West Energy Trust	PWE	B	29.18	241.5	7,050	36.00	0.19	0.85
Canadian Oil Sands Trust	COSWF	B	31.27	479.0	14,980	39.00	0.07	0.82
<i>Total or Median</i>					31,900	0.16	0.85	

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-Sep 2007	Adjstd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)
U.S. Royalty Trusts							
Cross Timbers Royalty Trust	CRT	43.05	12.0	12.6	11.7	12.5	8.0
San Juan Basin Royalty Trust	SJT B	32.90	10.0	13.9	11.4	14.2	7.1
Sabine Royalty Trust	SBR	43.40	9.6	10.8	10.4	10.4	9.6
Mesa RoyaltyTrust	MTR	60.25	21.9	11.7	10.1	11.5	8.7
Dorchester Minerals, L.P.	DMLP	20.64	9.1	12.9	9.8	15.9	10.2
Hugoton RoyaltyTrust	HGT B	23.43	14.1	12.9	8.9	13.0	7.7
Permian Basin RT	PBT	14.34	8.1	9.6	8.4	10.7	9.4
	<i>Median</i>		<i>10.0</i>	<i>12.6</i>	<i>10.1</i>	<i>12.5</i>	<i>8.7</i>
Canadian Income Trusts (US\$)							
Canadian Oil Sands Trust	COSWF B	31.27	20.9	10.5	8.6	10.5	9.8
Pengrowth Energy Trust	PGH	17.25	7.1	8.1	8.2	56.3	16.5
Enerplus Resources Fund	ERF	43.61	9.4	9.3	7.9	16.9	10.9
Penn West Energy Trust	PWE B	29.18	7.7	8.1	6.9	14.4	13.2
	<i>Median</i>		<i>8.5</i>	<i>8.7</i>	<i>8.1</i>	<i>15.7</i>	<i>12.1</i>

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended September 30, 2008; 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) (%)
U.S. Royalty Trusts							
San Juan Basin Royalty Trust	SJT	-	98	0.81	0.81	108	2.32 7.1
Hugoton RoyaltyTrust	HGT	-	88	0.68	0.68	72	1.81 7.7
Cross Timbers Royalty Trust	CRT	84	67	0.94	0.94	21	3.44 8.0
Mesa RoyaltyTrust	MTR	-	70	0.88	0.88	10	5.23 8.7
Permian Basin RT	PBT	35	35	0.78	0.78	63	1.34 9.4
Sabine Royalty Trust	SBR	100	56	1.00	1.00	61	4.18 9.6
Dorchester Minerals, L.P.	DMLP	64	72	1.00	1.00	59	2.10 10.2
	<i>Total or Median</i>		<i>70</i>	<i>0.88</i>	<i>0.88</i>	<i>400</i>	<i>8.7</i>
Canadian Income Trusts (US\$)							
Canadian Oil Sands Trust	COSWF	-	(7)	0.76	0.82	1,461	3.05 9.8
Enerplus Resources Fund	ERF	-	41	0.75	0.85	611	4.77 10.9
Penn West Energy Trust	PWE	-	35	0.70	0.87	933	3.87 13.2
Pengrowth Energy Trust	PGH	-	40	1.00	1.35	699	2.84 16.5
	<i>Total or Median</i>		<i>38</i>	<i>0.75</i>	<i>0.86</i>	<i>3,700</i>	<i>12.1</i>
Kinder Morgan Energy Partners	KMP			0.76	1.60		6.7

NTM = Next Twelve Months Ended June 30, 2008

Ebitda = Earnings before interest, tax, depreciation and amortization

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