

Leaders and Laggards in 2007

Summary and Recommendation

After delivering a median total return, debt-adjusted, of about 12% in 2007, oil and gas income stocks at a median McDep Ratio less than 0.9 appear priced to deliver similar or better returns in 2008. Leading gainers **Mesa Royalty Trust (MTR)** and buy-recommended **Canadian Oil Sands Trust (COSWF)** at 69% and 55%, respectively, boost the average above the median. Both leaders had among the lowest McDep Ratios a year ago. While buy-recommendations **Hugoton Royalty Trust (HGT)** and **Penn West Energy Trust (PWE)** scored negative returns of -7% and -4% in 2007, we think both have the energy resources to deliver better future results. A median five-year return of 33% a year for peer stocks illustrates the potential, but does not assure it (see table [Rank by 2007 Debt-Adjusted Return](#)).

HGT and PWE Post Mortem

Are last year's disappointments next year's opportunity? It might help in answering that question if we knew why HGT and PWE were disappointing in total return. We can point to HGT's full concentration on natural gas which is lagging oil in commodity price. Yet 2007 star, MTR, is also fully concentrated on natural gas. HGT has about a third of production in the Rocky Mountains where transportation limitations contributed to weak commodity price in the summer and fall. Winter demand has changed that picture and new pipeline capacity is nearing completion. In any event we are not aware of any development that would cause us to change materially our estimate of Net Present Value (NPV). We'll be patient as we await a positive surprise for HGT in 2008.

The obvious disappointment in PWE was the double whammy on taxes in Canada. Hopes for a reversal of the new tax on trusts were dashed early in 2007. Later, Alberta raised tax rates on oil and gas. The worsening fiscal climate disproportionately lowered the investment appeal of PWE's growth projects in enhanced recovery of light oil and new production of heavy oil. Management ratified the changed outlook as it embarked on a new strategy to be a consolidator of conventional oil and gas at a time of fiscal uncertainty. We'll be patient on PWE also as we see a low McDep Ratio on scaled back NPV.

COSWF faced some of the same tax negatives as PWE. Indeed debt-adjusted total return at 55% in 2007 was down from 74% a year for the past five years. Nonetheless total return continued at a high level for a unique concentration on a low-cost long-life asset with protection until 2015 against oil tax rate increases.

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Natural Gas and Oil Income Stocks							
Rank by 2007 Debt-Adjusted Return							
			<i>Price</i>			<i>Total Return</i>	
			<i>(\$/sh)</i>	<i>End of 2006</i>		<i>Debt-Adjusted</i>	
	<i>Symbol</i>		<i>27-Dec</i>	<i>Debt/</i>	<i>McDep</i>	<i>Percent a Year</i>	
	<i>Rating</i>		<i>2007</i>	<i>PV</i>	<i>Ratio</i>	<i>Five Year</i>	<i>One-Year</i>
U.S. Royalty Trusts							
Cross Timbers Royalty Trust	CRT		41.85	-	1.11	36.9	(14.3)
Hugoton Royalty Trust	HGT	B	21.93	-	0.73	30.6	(7.4)
San Juan Basin Royalty Trust	SJT	B	33.36	-	0.83	43.1	11.4
Permian Basin RT	PBT		15.87	-	0.98	45.6	13.3
Sabine Royalty Trust	SBR		44.67	-	0.94	33.9	20.9
Mesa Royalty Trust	MTR		69.05	-	0.74	29.3	68.7
<i>Total or Median</i>						<i>35.4</i>	<i>12.4</i>
Canadian Income Trusts (US\$)							
Penn West Energy Trust	PWE	B	26.38	0.13	0.81	-	(3.6)
Enerplus Resources Fund	ERF		40.66	0.11	0.93	39.2	4.1
Pengrowth Energy Trust	PGH		17.79	0.27	0.90	-	22.4
Canadian Oil Sands Trust	COSWF	B	38.49	0.09	0.82	73.6	54.6
<i>Total or Median</i>						<i>19.6</i>	<i>13.2</i>
U.S. Master Limited Partnerships (MLPs)							
Dorchester Minerals, L.P.	DMLP		19.46	-	0.81	-	(1.1)
Kinder Morgan Energy Partners, L.P.	KMP	S	54.36	0.55	2.01	10.7	12.7
Encore Energy Partners, L.P. (39%)	ENP		17.70				
Linn Energy, LLC	LINE		25.37				
<i>Total or Median</i>							
S&P 500				0.30		13.1	5.4

Source: Bloomberg, McDep

Natural Gas and Oil Income Stocks - Rank by McDep Ratio							
			<i>Price</i>			<i>Net</i>	
			<i>(\$/sh)</i>	<i>Market</i>	<i>Present</i>	<i>Debt/</i>	
	<i>Symbol/</i>		<i>27-Dec</i>	<i>Cap</i>	<i>Value</i>	<i>Present</i>	<i>McDep</i>
	<i>Rating</i>		<i>2007</i>	<i>(\$mm)</i>	<i>(\$/un)</i>	<i>Value</i>	<i>Ratio</i>
U.S. Royalty Trusts							
Mesa Royalty Trust	MTR		69.05	1.9	130	70.00	- 0.99
Sabine Royalty Trust	SBR		44.67	14.6	650	48.00	- 0.93
Cross Timbers Royalty Trust	CRT		41.85	6.0	250	47.00	- 0.89
Permian Basin RT	PBT		15.87	46.6	740	18.00	- 0.88
San Juan Basin Royalty Trust	SJT	B	33.36	46.6	1,560	40.00	- 0.83
Hugoton Royalty Trust	HGT	B	21.93	40.0	880	34.00	- 0.64
<i>Total or Median</i>					<i>4,200</i>		<i>0.89</i>
Canadian Income Trusts (US\$)							
Pengrowth Energy Trust	PGH		17.79	247.0	4,390	19.00	0.24 0.95
Canadian Oil Sands Trust	COSWF	B	38.49	479.0	18,430	45.00	0.06 0.86
Enerplus Resources Fund	ERF		40.66	129.4	5,260	52.00	0.13 0.81
Penn West Energy Trust	PWE	B	26.38	242.6	6,400	37.00	0.20 0.77
<i>Total or Median</i>					<i>34,500</i>		<i>0.17 0.84</i>
U.S. Master Limited Partnerships (MLPs)							
Kinder Morgan Energy Partners, L.P.	KMP	S	54.36	179.3	9,750	17.00	0.54 2.01
Linn Energy, LLC	LINE		25.37	114.0	2,890	27.00	0.30 0.96
Encore Energy Partners, L.P. (39%)	ENP		17.70	9.0	160	20.00	0.14 0.90
Dorchester Minerals, L.P.	DMLP		19.46	28.2	550	27.00	- 0.72
<i>Total or Median</i>					<i>13,400</i>		<i>0.22 0.93</i>

B = Buy, S = Sell

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

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Natural Gas and Oil Income Stocks - Rank by EV/Ebitda								
			Price (\$/sh)	Adjstd Resrvs/ Prod	PV/ Ebitda	EV/ Ebitda	P/E	Divd or Distrib
	Symbol/ Rating		27-Dec 2007	NTM	NTM	NTM	NTM	NTM (%)
U.S. Royalty Trusts								
San Juan Basin Royalty Trust	SJT	B	33.36	10.2	13.5	11.3	13.8	7.3
Mesa RoyaltyTrust	MTR		69.05	21.1	10.4	10.3	11.7	8.5
Cross Timbers Royalty Trust	CRT		41.85	13.1	11.5	10.2	10.9	9.2
Sabine Royalty Trust	SBR		44.67	9.2	10.4	9.7	9.7	10.3
Pemian Basin RT	PBT		15.87	8.2	9.4	8.3	9.3	10.7
Hugoton RoyaltyTrust	HGT	B	21.93	13.4	11.5	7.4	10.4	9.6
	<i>Median</i>			<i>11.7</i>	<i>11.0</i>	<i>10.0</i>	<i>10.7</i>	<i>9.4</i>
Canadian Income Trusts (US\$)								
Canadian Oil Sands Trust	COSWF	B	38.49	23.2	10.8	9.4	11.3	8.3
Pengrowth Energy Trust	PGH		17.79	7.4	7.2	6.9	21.4	15.1
Enerplus Resources Fund	ERF		40.66	9.7	8.4	6.8	11.9	12.3
Penn West Energy Trust	PWE	B	26.38	7.8	7.2	5.6	10.0	15.4
	<i>Median</i>			<i>8.7</i>	<i>7.8</i>	<i>6.8</i>	<i>11.6</i>	<i>13.7</i>
U.S. Master Limited Partnerships (MLPs)								
Kinder Morgan Energy Partners, L.P.	KMP	S	54.36	7.6	7.9	15.9	34.4	6.5
Linn Energy, LLC	LINE		25.37	20.8	15.1	14.5	62.9	9.0
Dorchester Minerals, L.P.	DMLP		19.46	9.2	12.1	8.7	13.4	11.4
Encore Energy Partners, L.P.	ENP		17.70	12.2	8.5	7.6	62.1	7.9
	<i>Median</i>			<i>10.7</i>	<i>10.3</i>	<i>11.6</i>	<i>48.2</i>	<i>8.4</i>

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

Natural Gas and Oil Income Stocks - Rank by NTM Distribution Yield								
			Natural Gas/ Ebitda	Dist/ Ebitda	Dist/ Equity Ebitda	NTM Distribution (\$mm)	Dist Yield (\$/un)	
	Symbol	Revenue Royalty (%)	(%)	(%)	(%)	(%)	(%)	(%)
U.S. Royalty Trusts								
San Juan Basin Royalty Trust	SJT	-	98	0.82	0.82	113	2.42	7.3
Mesa RoyaltyTrust	MTR	-	65	0.88	0.88	11	5.89	8.5
Cross Timbers Royalty Trust	CRT	84	65	0.94	0.94	23	3.83	9.2
Hugoton RoyaltyTrust	HGT	-	86	0.71	0.71	84	2.11	9.6
Sabine Royalty Trust	SBR	100	51	1.00	1.00	67	4.60	10.3
Pemian Basin RT	PBT	35	33	0.88	0.88	79	1.70	10.7
	<i>Total or Median</i>		<i>65</i>	<i>0.88</i>	<i>0.88</i>	<i>400</i>		<i>9.4</i>
Canadian Income Trusts (US\$)								
Canadian Oil Sands Trust	COSWF	-	(6)	0.72	0.77	1,524	3.18	8.3
Enerplus Resources Fund	ERF	-	37	0.70	0.81	648	5.01	12.3
Pengrowth Energy Trust	PGH	-	35	0.77	1.02	663	2.68	15.1
Penn West Energy Trust	PWE	-	28	0.63	0.79	984	4.06	15.4
	<i>Total or Median</i>		<i>32</i>	<i>0.71</i>	<i>0.80</i>	<i>3,800</i>		<i>13.7</i>
U.S. Master Limited Partnerships (MLPs)								
Kinder Morgan Energy Partners	KMP	-	-	0.75	1.64	631	3.52	6.5
Encore Energy Partners, L.P.	ENP	-	14	0.51	0.59	13	1.40	7.9
Linn Energy, LLC	LINE	-	65	0.89	1.27	260	2.28	9.0
Dorchester Minerals, L.P.	DMLP	64	68	1.00	1.00	63	2.23	11.4
	<i>Total or Median</i>		<i>39</i>	<i>0.82</i>	<i>1.14</i>	<i>1,000</i>		<i>8.4</i>

NTM = Next Twelve Months Ended December 31, 2008
Ebitda = Earnings before interest, tax, depreciation and amortization

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