

Oil Sands and LNG

Summary and Recommendation

New energy supply from oils sands and liquefied natural gas (LNG) will contribute to more efficient energy pricing, likely at higher levels than today. In the inflationary energy capital spending boom underway, new supply is generally more costly than expected. Despite the anticipated tripling of capacity by 2015 for both oil sands and LNG, the new resources would then supply 1% and less than 3% of world energy requirements respectively (see <http://www.mcdep.com/present60215handout.pdf>). Meanwhile, the most important pricing power is shifting from consumer-friendly Saudi Arabia to the independent capitalist hands of natural gas and oil producer Russia. As natural gas pricing transparency is enhanced by international trade in LNG, inefficiencies that price natural gas low relative to oil will likely diminish. Because its capacity is already built, buy-recommended **Canadian Oil Sands Trust (COSWF)**, 35% owner of the largest existing oil sands plant, becomes worth more every day oil price expectations inch upward. Buy-recommended **San Juan Basin Royalty Trust (SJT)** and peers have existing natural gas production capacity currently priced at a discount to oil.

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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) 30-Mar 2006</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								
Permian Basin RT	PBT	16.26	46.6	760	15.00	-	1.08	
Sabine Royalty Trust	SBR	44.20	14.6	640	42.00	-	1.05	
San Juan Basin Royalty Trust	SJT	B	41.75	46.6	1,950	40.00	-	1.04
Dorchester Minerals, L.P.	DMLP	26.85	28.2	760	26.00	-	1.03	
Cross Timbers Royalty Trust	CRT	45.75	6.0	280	45.00	-	1.02	
Hugoton RoyaltyTrust (46%)	HGT	31.62	18.4	580	34.00	-	0.93	
Mesa RoyaltyTrust	MTR	68.21	1.9	130	75.00	-	0.91	
	<i>Total or Median</i>			<i>5,100</i>			<i>1.03</i>	
Canadian Income Trusts								
Pengrowth Energy Trust	PGH	23.10	160.0	3,700	18.00	0.16	1.24	
Enerplus Resources Fund	ERF	50.23	114.2	5,740	42.00	0.14	1.17	
Penn West Energy Trust	PWTFF	B	37.31	165.1	6,160	33.00	0.12	1.12
Canadian Oil Sands Trust (US\$)	COSWF	B	144.42	93.4	13,490	136.00	0.11	1.06
	<i>Total or Median</i>			<i>29,100</i>		<i>0.13</i>	<i>1.14</i>	

B = Buy, H = Hold

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) 30-Mar 2006	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	45.75	12.6	11.3	11.5	12.0	8.3
San Juan Basin Royalty Trust	SJT B	41.75	13.6	10.6	11.1	12.5	8.0
Mesa RoyaltyTrust	MTR	68.21	18.6	11.7	10.6	10.8	9.3
Sabine Royalty Trust	SBR	44.20	9.0	9.7	10.2	10.2	9.8
Permian Basin RT	PBT	16.26	7.7	9.1	9.9	10.7	9.3
Dorchester Minerals, L.P.	DMLP	26.85	11.8	9.3	9.6	14.4	9.4
Hugoton RoyaltyTrust (46%)	HGT	31.62	13.6	9.5	8.8	11.4	8.8
	<i>Median</i>		<i>12.6</i>	<i>9.7</i>	<i>10.2</i>	<i>11.4</i>	<i>9.3</i>
Canadian Income Trusts							
Canadian Oil Sands Trust (US\$)	COSWF B	144.42	20.0	9.3	9.8	12.4	2.4
Penn West Energy Trust	PWTFF B	37.31	7.7	6.1	6.8	9.9	9.4
Enerplus Resources Fund	ERF	50.23	9.4	5.8	6.7	11.4	8.6
Pengrowth Energy Trust	PGH	23.10	7.2	5.2	6.5	9.6	11.1
	<i>Median</i>		<i>8.6</i>	<i>5.9</i>	<i>6.8</i>	<i>10.6</i>	<i>9.0</i>

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended March 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 (%)
U.S. Royalty Trusts								
San Juan Basin Royalty Trust	SJT	-	98	0.89	0.89	156	3.34	8.0
Cross Timbers Royalty Trust	CRT	81	70	0.96	0.96	23	3.81	8.3
Hugoton RoyaltyTrust (46%)	HGT	-	91	0.78	0.78	51	2.77	8.8
Mesa RoyaltyTrust	MTR	-	76	0.98	0.98	12	6.31	9.3
Permian Basin RT	PBT	29	37	0.92	0.92	71	1.52	9.3
Dorchester Minerals, L.P.	DMLP	54	78	0.91	0.91	71	2.53	9.4
Sabine Royalty Trust	SBR	100	49	1.00	1.00	63	4.34	9.8
	<i>Total or Median</i>		<i>76</i>	<i>0.92</i>	<i>0.92</i>	<i>400</i>		<i>9.3</i>
Canadian Income Trusts								
Canadian Oil Sands Trust (US\$)	COSWF	-	(8)	0.21	0.23	319	3.42	2.4
Enerplus Resources Fund	ERF	-	46	0.51	0.59	492	4.31	8.6
Penn West Energy Trust	PWTFF	-	40	0.56	0.64	576	3.49	9.4
Pengrowth Energy Trust	PGH	-	41	0.63	0.75	410	2.57	11.1
	<i>Total or Median</i>		<i>40</i>	<i>0.54</i>	<i>0.62</i>	<i>1,800</i>		<i>9.0</i>
Kinder Morgan Energy Partners	KMP			0.77	1.69			6.7

NTM = Next Twelve Months Ended March 31, 2007

Ebitda = Earnings before interest, tax, depreciation and amortization

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