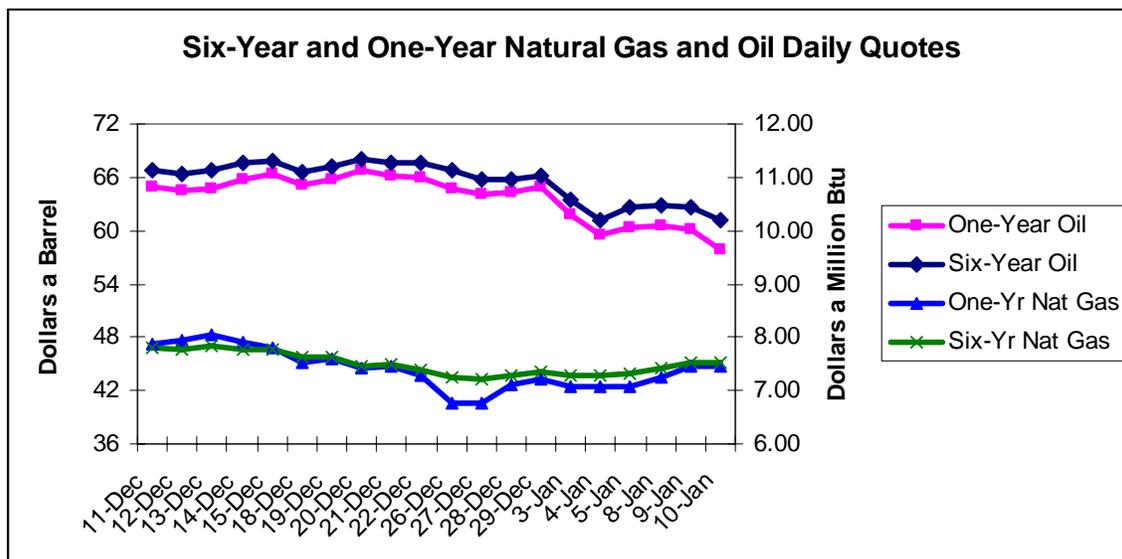


Convergence 2007

Summary and Recommendation

Natural gas is doing better than oil in the first ten days of the new year thereby narrowing a price gap between the two commodities (see table). We would prefer to see natural gas moving up to oil rather than oil moving down to natural gas. Yet, the decline in the widely-quoted near-month price to \$54 a barrel, partly in response to warm winter weather, is exaggerated compared to the decline to \$61 for delivery over the next six years. Buy recommendations **Hugoton Royalty Trust (HGT)** and **San Juan Basin Royalty Trust (SJT)** are pure plays on natural gas. Buy-recommended **Canadian Oil Sands Trust (COSWF)** is oil oriented while buy-recommended **Penn West Energy Trust (PWE)** is concentrated about a third on natural gas. Low McDep Ratios imply appreciation potential as a well as a value cushion should commodity price be lower. Meanwhile, latest projections of next twelve months distribution yield are a median 8.2% for U.S. trusts and a median 11.6% for Canadian trusts in our coverage.

Kurt H. Wulff, CFA



Source: New York Mercantile Exchange, Bloomberg, McDep Associates

Q: A client asks what the annual distribution would be for Penn West Energy (PWE) and Canadian Oil Sands Trust (COSWF) with oil at \$40 and natural gas at \$5.

A: At US\$40 oil and US\$5 natural gas, COSWF cash flow would cover US\$2.00 annual distribution when operating at design volume of 350,000 barrels daily, but there would be no cash from operations to pay down debt or to make new capital expenditures. On the same basis, PWE cash flow would cover US\$2.60 annual distribution at current volume.

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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) 10-Jan 2007	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/un)	Debt/ Present Value	McDep Ratio
U.S. Royalty Trusts							
Cross Timbers Royalty Trust	CRT	45.11	6.0	270	46.00	-	0.98
Permian Basin RT	PBT	15.50	46.6	720	16.50	-	0.94
Sabine Royalty Trust	SBR	39.92	14.6	580	45.00	-	0.89
Dorchester Minerals, L.P.	DMLP	21.69	28.2	610	27.00	-	0.80
San Juan Basin Royalty Trust	SJT B	31.17	46.6	1,450	40.00	-	0.78
Mesa RoyaltyTrust	MTR	52.00	1.9	100	70.00	-	0.74
Hugoton RoyaltyTrust	HGT B	23.85	40.0	950	34.00	-	0.70
<i>Total or Median</i>				4,700			0.80
Canadian Income Trusts (US\$)							
Enerplus Resources Fund	ERF	40.07	123.1	4,930	47.00	0.11	0.87
Pengrowth Energy Trust	PGH	16.13	241.0	3,890	20.00	0.26	0.86
Penn West Energy Trust	PWE B	27.83	239.0	6,650	39.00	0.13	0.75
Canadian Oil Sands Trust	COSWF B	23.10	479.0	11,070	35.00	0.09	0.69
<i>Total or Median</i>				26,500		0.12	0.80

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) 10-Jan 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	45.11		14.0	13.7	14.0	7.1
Sabine Royalty Trust	SBR	39.92		13.5	12.0	12.0	8.3
Permian Basin RT	PBT	15.50		11.9	11.2	12.7	7.9
Dorchester Minerals, L.P.	DMLP	21.69		12.9	10.4	17.4	9.1
Mesa RoyaltyTrust	MTR	52.00		13.1	9.7	12.3	8.2
San Juan Basin Royalty Trust	SJT B	31.17		11.5	9.0	11.2	8.9
Hugoton RoyaltyTrust	HGT B	23.85		11.9	8.3	14.4	6.9
<i>Median</i>				12.9	10.4	12.7	8.2
Canadian Income Trusts (US\$)							
Canadian Oil Sands Trust	COSWF B	23.10	23.0	15.3	10.6	15.7	7.7
Enerplus Resources Fund	ERF	40.07	9.5	8.8	7.6	19.6	10.7
Penn West Energy Trust	PWE B	27.83	8.1	9.7	7.3	14.4	12.5
Pengrowth Energy Trust	PGH	16.13	7.1	7.8	6.7	12.1	15.8
<i>Median</i>			8.8	9.2	7.4	15.1	11.6

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended December 31, 2007; 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>
U.S. Royalty Trusts								
Hugoton RoyaltyTrust	HGT	-	91	0.58	0.58	66	1.65	6.9
Cross Timbers Royalty Trust	CRT	81	70	0.98	0.98	19	3.22	7.1
Permian Basin RT	PBT	29	36	0.88	0.88	57	1.22	7.9
Mesa RoyaltyTrust	MTR	-	76	0.79	0.79	8	4.24	8.2
Sabine Royalty Trust	SBR	100	55	1.00	1.00	49	3.33	8.3
San Juan Basin Royalty Trust	SJT	-	98	0.80	0.80	130	2.78	8.9
Dorchester Minerals, L.P.	DMLP	56	75	0.94	0.94	56	1.97	9.1
	<i>Total or Median</i>		75	0.88	0.88	400		8.2
Canadian Income Trusts (US\$)								
Canadian Oil Sands Trust	COSWF	-	(11)	0.71	0.78	856	1.79	7.7
Enerplus Resources Fund	ERF	-	44	0.71	0.80	528	4.29	10.7
Penn West Energy Trust	PWE	-	40	0.75	0.86	830	3.47	12.5
Pengrowth Energy Trust	PGH	-	42	0.74	1.00	615	2.55	15.8
	<i>Total or Median</i>		41	0.72	0.83	2,800		11.6
Kinder Morgan Energy Partners	KMP			0.75	1.70			7.2

NTM = Next Twelve Months Ended December 31, 2007

Ebitda = Earnings before interest, tax, depreciation and amortization

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