

Too Much Coal

Summary and Recommendation

The stock market is at new highs, environmental pollution is rampant and natural gas is selling at half price. The price of clean natural gas tells us the world is not really serious today about cutting pollution. All the discussion about global warming, acid rain, carcinogens and metal poisoning appears to be just hot air. The U.S. should shut down its oldest, dirtiest coal-fired power plants as long as natural gas is available at a price below that of oil. America sets a bad example for China where the world's largest coal polluting country pays its natural gas producers a fourth the price it pays for oil from corrupt states in Africa. Meanwhile, natural gas and oil income investors can be patient while estimated distribution yield for the next year is a median 8.6% for U.S. royalty trusts and 10.8% for Canadian income trusts. Buy-recommendations **San Juan Basin Royalty Trust (SJT)** and **Hugoton Royalty Trust (HGT)** have the lowest McDep Ratios and are concentrated 98% and 90% on the clean fuel.

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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) 12-Jul 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	42.61	14.6	620	45.00	-	0.95
Cross Timbers Royalty Trust	CRT	42.88	6.0	260	46.00	-	0.93
Dorchester Minerals, L.P.	DMLP	23.76	28.2	670	27.00	-	0.88
Permian Basin RT	PBT	14.04	46.6	650	16.50	-	0.85
Mesa RoyaltyTrust	MTR	59.17	1.9	110	70.00	-	0.84
San Juan Basin Royalty Trust	SJT	B 32.00	46.6	1,490	40.00	-	0.80
Hugoton RoyaltyTrust	HGT	B 25.69	40.0	1,030	34.00	-	0.76
<i>Total or Median</i>				<i>4,800</i>			<i>0.85</i>
Canadian Income Trusts (US\$)							
Pengrowth Energy Trust	PGH	19.55	244.0	4,770	17.00	0.29	1.11
Penn West Energy Trust	PWE	B 34.25	239.7	8,210	36.00	0.17	0.96
Enerplus Resources Fund	ERF	47.08	123.4	5,810	52.00	0.13	0.92
Canadian Oil Sands Trust	COSWF	B 31.40	479.0	15,040	39.00	0.08	0.82
<i>Total or Median</i>				<i>33,800</i>		<i>0.15</i>	<i>0.94</i>

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) 12-Jul 2007	Adjstd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)	
U.S. Royalty Trusts								
Dorchester Minerals, L.P.	DMLP	23.76	9.1	13.3	11.7	19.7	8.6	
Cross Timbers Royalty Trust	CRT	42.88	12.3	12.6	11.7	12.0	8.3	
Sabine Royalty Trust	SBR	42.61	10.2	12.0	11.3	11.3	8.8	
San Juan Basin Royalty Trust	SJT	B	32.00	10.2	12.7	10.2	12.5	8.0
Mesa RoyaltyTrust	MTR	59.17	23.7	11.8	10.0	11.4	8.8	
Permian Basin RT	PBT	14.04	8.7	10.2	8.7	10.5	9.5	
Hugoton RoyaltyTrust	HGT	B	25.69	14.0	11.0	8.3	11.8	8.5
	<i>Median</i>		<i>10.2</i>	<i>12.0</i>	<i>10.2</i>	<i>11.8</i>	<i>8.6</i>	
Canadian Income Trusts (US\$)								
Canadian Oil Sands Trust	COSWF	B	31.40	21.1	10.8	8.8	11.5	6.4
Pengrowth Energy Trust	PGH	19.55	7.5	7.8	8.6	34.8	14.6	
Enerplus Resources Fund	ERF	47.08	9.0	8.0	7.4	14.4	10.2	
Penn West Energy Trust	PWE	B	34.25	7.6	7.6	7.3	16.2	11.3
	<i>Median</i>		<i>8.3</i>	<i>7.9</i>	<i>8.0</i>	<i>15.3</i>	<i>10.8</i>	

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended June 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. Distribution (\$/un)	Dist. Yield (%)
U.S. Royalty Trusts								
San Juan Basin Royalty Trust	SJT	-	98	0.81	0.81	119	2.56	8.0
Cross Timbers Royalty Trust	CRT	84	69	0.97	0.97	21	3.56	8.3
Hugoton RoyaltyTrust	HGT	-	90	0.71	0.71	87	2.18	8.5
Dorchester Minerals, L.P.	DMLP	64	72	1.00	1.00	57	2.03	8.6
Mesa RoyaltyTrust	MTR	-	72	0.88	0.88	10	5.18	8.8
Sabine Royalty Trust	SBR	100	54	1.00	1.00	55	3.76	8.8
Permian Basin RT	PBT	35	37	0.83	0.83	62	1.34	9.5
	<i>Total or Median</i>		<i>72</i>	<i>0.88</i>	<i>0.88</i>	<i>400</i>		<i>8.6</i>
Canadian Income Trusts (US\$)								
Canadian Oil Sands Trust	COSWF	-	(8)	0.51	0.55	958	2.00	6.4
Enerplus Resources Fund	ERF	-	44	0.64	0.74	592	4.80	10.2
Penn West Energy Trust	PWE	-	37	0.68	0.82	931	3.89	11.3
Pengrowth Energy Trust	PGH	-	42	0.93	1.30	697	2.86	14.6
	<i>Total or Median</i>		<i>40</i>	<i>0.66</i>	<i>0.78</i>	<i>3,200</i>		<i>10.8</i>
Kinder Morgan Energy Partners	KMP			0.80	1.75			5.9

NTM = Next Twelve Months Ended June 30, 2008

Ebitda = Earnings before interest, tax, depreciation and amortization

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**Natural Gas and Oil Royalty Trusts
Rank by Price to 200-Day Average**

	<i>Symbol</i>		<i>Price (\$/sh)</i>		<i>Price/</i>	<i>Price/</i>
	<i>Rating</i>	<i>12-Jul</i>	<i>60-Day</i>	<i>200-Day</i>	<i>60-Day</i>	<i>200-Day</i>
		<i>2007</i>	<i>Average</i>	<i>Average</i>	<i>Average</i>	<i>Average</i>
U.S. Royalty Trusts						
Mesa Royalty Trust	MTR	59.17	58.30	55.10	1.01	1.07
Dorchester Minerals, L.P.	DMLP	23.76	22.50	22.90	1.06	1.04
Hugoton Royalty Trust	HGT B	25.69	26.40	25.70	0.97	1.00
Sabine Royalty Trust	SBR	42.61	42.50	43.50	1.00	0.98
San Juan Basin Royalty Trust	SJT B	32.00	32.30	33.60	0.99	0.95
Cross Timbers Royalty Trust	CRT	42.88	43.80	45.70	0.98	0.94
Permian Basin RT	PBT	14.04	13.70	15.00	1.02	0.94
	<i>Total or Median</i>				<i>1.00</i>	<i>0.98</i>
Canadian Income Trusts (US\$)						
Canadian Oil Sands Trust	COSWF B	31.40	28.60	26.40	1.10	1.19
Pengrowth Energy Trust	PGH	19.55	18.20	17.70	1.07	1.10
Penn West Energy Trust	PWE B	34.25	32.90	31.90	1.04	1.07
Enerplus Resources Fund	ERF	47.08	46.10	45.30	1.02	1.04
	<i>Total or Median</i>				<i>1.06</i>	<i>1.09</i>

Source: Bloomberg

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