

## Market Reprices Credit Risk

### Summary and Recommendation

The absolute attractiveness of buy-recommended and low-McDep Ratio income stocks is increased by stock price declines. Recent stock market turmoil appears to stem from a correction of credit excesses with only marginal impact on economic activity, in our opinion. U.S. royalty trusts have no credit risk as they have no debt by definition. Canadian trusts in our coverage have low or manageable debt. Long-term crude oil price remains in a strong uptrend while six-year natural gas, at a steep discount to oil, is holding above its 40-week average. Trust-specific operating conditions are especially favorable for buy-recommended **Canadian Oil Sands Trust (COSWF)** where we expect record volume for the rest of 2007. Meanwhile, estimated distribution yield for the next year is a median 8.8% for U.S. royalty trusts and 11.6% for Canadian income trusts. This edition of our weekly analysis of oil and gas income stocks is a market day later because of our preoccupation with analyzing latest operating company earnings disclosures.

Kurt H. Wulff, CFA

### Natural Gas and Oil Royalty Trusts Rank by McDep Ratio: Market Cap and Debt to Present Value

	<i>Symbol/ Rating</i>	<i>Price (\$/sh) 27-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>	
<b>U.S. Royalty Trusts</b>								
Sabine Royalty Trust	SBR	41.84	14.6	610	45.00	-	0.93	
Cross Timbers Royalty Trust	CRT	40.43	6.0	240	46.00	-	0.88	
Mesa RoyaltyTrust	MTR	60.71	1.9	110	70.00	-	0.87	
Permian Basin RT	PBT	14.20	46.6	660	16.50	-	0.86	
Dorchester Minerals, L.P.	DMLP	21.69	28.2	610	27.00	-	0.80	
San Juan Basin Royalty Trust	SJT	B	31.91	46.6	1,490	40.00	-	0.80
Hugoton RoyaltyTrust	HGT	B	23.97	40.0	960	34.00	-	0.71
<i>Total or Median</i>					4,700		0.86	
<b>Canadian Income Trusts (US\$)</b>								
Pengrowth Energy Trust	PGH	18.80	244.0	4,590	17.00	0.29	1.08	
Penn West Energy Trust	PWE	B	31.37	239.7	7,520	36.00	0.17	0.89
Enerplus Resources Fund	ERF	44.84	123.4	5,530	52.00	0.13	0.88	
Canadian Oil Sands Trust	COSWF	B	30.68	479.0	14,700	39.00	0.07	0.80
<i>Total or Median</i>					32,300	0.15	0.89	

B = Buy

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

Historical independent energy investment analysis by Kurt Wulff doing business as McDep Associates is posted at [www.mcdep.com](http://www.mcdep.com). Analyses are prepared from sources and data believed to be reliable, but no representation is made as to their accuracy or completeness. Mr. Wulff is not paid by covered companies. Neither he nor his spouse trade a subject stock within a week before or after a change in rating.

## Natural Gas and Oil Royalty Trusts

### Rank by EV/Ebitda: Enterprise Value to Earnings Before Interest, Tax, Deprec.

	Symbol/ Rating	Price (\$/sh) 27-Jul 2007	Adjstd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)	
<b>U.S. Royalty Trusts</b>								
Sabine Royalty Trust	SBR	41.84	10.2	12.0	11.1	11.1	9.0	
Dorchester Minerals, L.P.	DMLP	21.69	9.1	13.3	10.7	18.0	9.4	
Cross Timbers Royalty Trust	CRT	40.43	12.4	12.1	10.7	11.3	8.8	
San Juan Basin Royalty Trust	SJT	B	31.91	10.2	13.0	10.4	12.7	7.9
Mesa RoyaltyTrust	MTR	60.71	23.7	11.9	10.3	11.8	8.5	
Permian Basin RT	PBT	14.20	8.7	10.2	8.8	10.6	9.4	
Hugoton RoyaltyTrust	HGT	B	23.97	13.9	11.6	8.2	11.9	8.4
	<i>Median</i>		<i>10.2</i>	<i>12.0</i>	<i>10.4</i>	<i>11.8</i>	<i>8.8</i>	
<b>Canadian Income Trusts (US\$)</b>								
Pengrowth Energy Trust	PGH	18.80	7.5	7.8	8.3	33.9	15.3	
Canadian Oil Sands Trust	COSWF	B	30.68	21.1	10.2	8.2	9.9	8.8
Enerplus Resources Fund	ERF	44.84	9.0	8.0	7.1	13.7	10.8	
Penn West Energy Trust	PWE	B	31.37	7.6	7.6	6.8	14.8	12.5
	<i>Median</i>		<i>8.3</i>	<i>7.9</i>	<i>7.6</i>	<i>14.3</i>	<i>11.6</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. Yield (\$/un) (%)	
<b>U.S. Royalty Trusts</b>								
San Juan Basin Royalty Trust	SJT	-	98	0.82	0.82	117	2.52	7.9
Hugoton RoyaltyTrust	HGT	-	89	0.69	0.69	81	2.02	8.4
Mesa RoyaltyTrust	MTR	-	71	0.88	0.88	10	5.13	8.5
Cross Timbers Royalty Trust	CRT	84	67	0.94	0.94	21	3.57	8.8
Sabine Royalty Trust	SBR	100	54	1.00	1.00	55	3.76	9.0
Dorchester Minerals, L.P.	DMLP	64	72	1.00	1.00	57	2.03	9.4
Permian Basin RT	PBT	35	37	0.83	0.83	62	1.34	9.4
	<i>Total or Median</i>		<i>71</i>	<i>0.88</i>	<i>0.88</i>	<i>400</i>		<i>8.8</i>
<b>Canadian Income Trusts (US\$)</b>								
Canadian Oil Sands Trust	COSWF	-	(7)	0.65	0.71	1,294	2.70	8.8
Enerplus Resources Fund	ERF	-	43	0.64	0.74	596	4.83	10.8
Penn West Energy Trust	PWE	-	37	0.68	0.82	937	3.91	12.5
Pengrowth Energy Trust	PGH	-	42	0.93	1.31	701	2.87	15.3
	<i>Total or Median</i>		<i>39</i>	<i>0.67</i>	<i>0.78</i>	<i>3,500</i>		<i>11.6</i>
Kinder Morgan Energy Partners	KMP			0.76	1.60			6.4

NTM = Next Twelve Months Ended June 30, 2008

Ebitda = Earnings before interest, tax, depreciation and amortization

Historical independent energy investment analysis by Kurt Wulff doing business as McDep Associates is posted at [www.mcdep.com](http://www.mcdep.com). Analyses are prepared from sources and data believed to be reliable, but no representation is made as to their accuracy or completeness. Mr. Wulff is not paid by covered companies. Neither he nor his spouse trade a subject stock within a week before or after a change in rating.