



COSWF and SJT Timely

Summary and Recommendation

After stock price drops of about 10% in a week, new commitments to our largest income buy recommendations, **Canadian Oil Sands Trust (COSWF)** and **San Juan Basin Royalty Trust (SJT)** appear timely. Both stocks are pure-play, blue chip jewels in oil and gas respectively. One is a slice of the largest producer of high quality oil in Canada and the other is a slice of the largest natural gas field in the U.S. with abundant resources yet to be produced. Oil in long-term short supply is the fuel the global economy depends on for transportation. Clean natural gas faces practically unlimited long-term demand to replace dirty coal that generates half the world's electricity. Stock prices for each are in the sweet spot, offering short-term bargains below the 60-day average while continuing in a medium-term upward trend above the 200-day average. Historic action by the U.S. Federal Reserve to extend free money to Wall Street brokers, a privilege previously reserved for banks, stimulates economic activity and, inevitably, demand for energy. Taking account of latest oil and gas prices, we project next twelve months distributions of 9% for COSWF and 9% for SJT.

Further Distribution Increases Likely at Canadian Oil Sands Trust

While sensitive to change in oil price as in the past week, COSWF stock price reflects a long-term price of about \$69 a barrel, not \$100 (McDep Ratio of 0.85 times \$80 a barrel incorporated in estimate of Present Value). Nonetheless, cash flow projections for the Next Twelve Months (NTM), regularly recalculated, indicate capacity for further increases in distribution to perhaps C\$1.00 a unit for the quarter ended March 31, 2009, a year from now (see table [NTM Operating and Financial Estimates](#)). Of course, any element in the calculation can change as we have just seen with extremely cold weather contributing to lower than expected volume for the current quarter. As it turns out, operating challenges and adverse tax increases in Alberta and Canada have the indirect effect of driving up global oil price so that the profitability of new investment remains attractive.

Rising Distributions Likely at San Juan Basin Royalty Trust

While sensitive to change in natural gas price as in the past week, SJT stock price reflects a long-term price of about \$10 a million btu (McDep Ratio of 0.91 times \$11 a million btu incorporated in estimate of Present Value). While \$10 is close to long-term natural gas futures, it is half the ultimate competitive equivalent of \$100 oil. Nonetheless, cash flow projections for the Next Twelve Months, regularly recalculated, indicate increases in distribution to perhaps US\$0.89 a unit for each of two quarters in the winter of 2008-2009 (see table [NTM Operating and Financial Estimates](#)). The monthly distribution declared on March 20 was surprisingly low as it included the one-time settlement of a legal dispute. The amount, which was SJT's share of a broader issue, seems modest considering it covered 17 years of history before ConocoPhillips, the current operator of SJT properties, took over from Burlington Resources.

Kurt H. Wulff, CFA

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Canadian Oil Sands Trust										
Next Twelve Months Operating and Financial Estimates										
(Canadian Dollars)										
										Next Twelve Months
	Q1	Q4	Year	Q1E	Q2E	Q3E	Q4E	Year	Q1E	Months
	3/31/07	12/31/07	2007	3/31/08	6/30/08	9/30/08	12/31/08	2008	3/31/09	3/31/09
Volume										
Syncrude (mmb)	26.6	28.8	111.3	24.1	26.0	26.7	31.3	108.1	31.5	115.5
Syncrude (mbd)	296	313	305	265	286	290	340	295	350	316
Days	90	92	365	91	91	92	92	366	90	365
Trust share (%)	36.9	37.2	36.8	36.7	36.7	36.7	36.7	36.7	36.7	36.7
Trust Oil (mmb)	9.81	10.71	41.0	8.85	9.56	9.80	11.49	39.7	11.57	42.4
Trust Oil (mbd)	109.0	116.4	112.3	97.3	105.1	106.5	124.9	108.5	128.6	116.2
Price										
WTI Cushing (US\$/bbl)	58.08	90.67	72.28	98.23	101.58	99.71	98.45	99.49	97.49	99.31
Currency (US\$/C\$)	0.85	1.02	0.94	0.99	0.99	0.99	0.99	0.99	0.99	0.99
WTI Cushing (C\$/bbl)	68.01	88.91	76.78	99.64	103.04	101.14	99.87	100.92	98.89	100.74
Differential	0.46	(0.41)	2.24	1.00	1.00	1.00	1.00	0.97	1.00	0.88
Trust Oil Price (C\$/bbl)	68.47	88.50	79.02	100.64	104.04	102.14	100.87	101.90	99.89	101.61
Henry Hub Nat Gas (US\$/mmbtu)	6.81	6.97	6.87	8.02	9.14	9.37	9.73	9.06	10.13	9.59
Henry Hub Nat Gas (C\$/mmbtu)	7.97	6.84	7.30	8.13	9.28	9.51	9.87	9.19	10.28	9.73
AECO Natural Gas (C\$/GJ)	6.99	5.84	6.15	6.85	7.81	8.01	8.31	7.74	8.66	8.20
Revenue (\$mm)										
Oil	672	947	3,239	891	995	1,001	1,159	4,046	1,156	4,311
Transportation & Marketing		8	25					-		-
Other	2	(11)	(33)					-		-
Total	674	950	3,252	891	995	1,001	1,159	4,046	1,156	4,311
Expense										
Production	171	234	815	210	210	210	210	840	210	840
Purchased Energy	60	59	219	56	69	73	89	288	93	324
Crown Royalties	94	137	485	133	156	157	192	638	190	695
Insurance	3	2	8	2	2	2	2	8	2	8
Administration	4	6	20	5	5	5	5	20	5	20
Taxes and Other	1	-	1	3	3	3	3	12	3	12
Total	333	438	1,548	410	445	450	501	1,805	503	1,899
Ebitda	341	512	1,704	482	550	552	658	2,241	653	2,412
Deprec., Deplet., & Amort.	82	91	351	80	86	88	103	357	104	382
Currency Hedging	(2)	(3)	(11)					-		-
Non-Production	18	14	63	22	22	22	22	88	22	88
Exchange on U.S. Debt	(7)	(5)	(117)					-		-
Future Income Tax	(38)	(118)	578					-		-
Ebit	288	533	840	380	441	441	533	1,796	527	1,942
Interest	24	17	85	13	13	13	13	52	13	52
Net Income (\$mm)	264	516	755	367	428	428	520	1,744	514	1,890
Per Unit (\$)	0.55	1.07	1.55	0.77	0.89	0.89	1.09	3.64	1.07	3.95
Units (millions)	479	479	487	479	479	479	479	479	479	479
Cash Flow (\$mm)										
Per Unit (\$)	0.42	0.77	3.22	0.93	1.07	1.08	1.30	4.39	1.29	4.74
Capital Expend (C\$/unit)	0.07		0.27	0.15	0.15	0.15	0.15	0.60	0.15	0.60
Net Free Cash Flow (C\$/unit)	0.35	0.77	2.61	0.78	0.92	0.93	1.15	3.79	1.14	4.14
Ratios										
Production (\$/bbl)	17.45	21.84	19.88	23.72	21.96	21.42	18.27	21.15	18.15	19.80
Purchased Energy (\$/bbl)	6.10	5.53	5.34	6.37	7.27	7.45	7.73	7.24	8.05	7.65
Prod&Purch En (\$/bbl)	23.55	27.37	25.23	30.09	29.23	28.87	26.00	28.40	26.20	27.44
Crown Royalties & Taxes	14%	14%	15%	15%	16%	16%	17%	16%	16%	16%
Other Expense (\$/bbl)	0.10	-	0.02	0.34	0.31	0.31	0.26	0.30	0.26	0.28
Ebitda Margin	51%	54%	52%	54%	55%	55%	57%	55%	56%	56%
Deprec., D.& A (\$/bbl)	8.36	8.50	8.56	9.00	9.00	9.00	9.00	9.00	9.00	9.00
Distribution	0.30	0.55	1.65	0.75	0.85	0.85	0.85	3.30	1.00	3.55

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San Juan Basin Royalty Trust										
Next Twelve Months Operating and Financial Estimates										
	Q1	Q4	Year	Q1E	Q2E	Q3E	Q4E	Year	Q1E	Next Twelve Months
	3/31/07	12/31/07	2007	3/31/08	6/30/08	9/30/08	12/31/08	2008	3/31/09	3/31/09
Highlights										
Revenue (\$mm) (75%)	41.3	39.1	172.2	45.7	49.1	61.0	62.9	218.7	62.9	235.8
Cash flow (\$mm) (75%)	32.2	30.1	134.2	35.3	38.2	49.1	50.6	173.2	50.6	188.5
Per unit	0.69	0.65	2.88	0.76	0.82	1.05	1.09	3.72	1.09	4.05
Distributable Income (\$mm)	24.0	26.0	113.2	25.1	31.1	40.1	41.3	137.6	41.3	153.8
Per unit	0.52	0.56	2.43	0.54	0.67	0.86	0.89	2.95	0.89	3.30
Units (millions)	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6
Volume										
Natural gas (mmbtu)	9.6	10.1	39.6	9.3	9.7	9.9	9.9	38.7	9.9	39.4
Heat Content(btu/cf)	1,075	1,072	1,072	1,082	1,071	1,073	1,074	1,075	1,074	1,073
Natural gas (bcf)	9.0	9.4	37.0	8.6	9.0	9.2	9.2	36.0	9.2	36.7
Natural Gas (mmcf)	97.3	102.5	101.3	93.0	100.2	100.2	100.2	98.4	100.2	100.2
Days	92	92	365	92	90	92	92	366	92	366
Oil (mb)	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.1	0.0	0.1
Oil (mbd)	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Days	92	92	365	92	90	92	92	366	92	366
Total gas & oil (bcf)	9.1	9.5	37.4	8.6	9.1	9.3	9.3	36.4	9.3	37.0
Price										
Natural gas (\$/mmbtu) (Henry Hub lagged two months)										
Henry Hub (\$/mmbtu)	7.11	5.99	6.96	7.21	7.44	9.05	9.32	8.25	9.32	8.78
Differential (%)	21	16	18	11	11	11	11	10	11	11
Net to SJT (\$/mmbtu)	5.62	5.05	5.69	6.44	6.65	8.08	8.32	7.39	8.32	7.85
Natural gas (\$/mcf)	6.04	5.42	6.10	6.97	7.12	8.67	8.94	7.95	8.94	8.43
Oil (\$/bbl) (WTI Cushing lagged two months)										
WTI Cushing	58.46	79.40	66.87	93.03	93.30	103.27	100.35	97.49	100.35	99.32
SJT	54.76	78.19	63.14	87.85	88.10	97.51	94.75	92.08	94.78	93.82
Total gas & oil (\$/mcf)	6.07	5.49	6.14	7.05	7.20	8.74	9.01	8.02	9.01	8.50
Revenue (\$mm)										
Natural Gas	54.0	51.1	225.4	59.7	64.2	79.9	82.4	286.2	82.4	309.0
Oil	1.0	1.1	4.1	1.3	1.3	1.4	1.4	5.3	1.4	5.4
Total	55.0	52.2	229.5	60.9	65.5	81.4	83.8	291.6	83.8	314.4
Cost (\$mm)										
Severance tax	5.7	4.9	22.6	5.8	6.5	7.7	8.3	28.3	8.3	30.7
Operating	6.4	7.1	28.0	8.1	8.1	8.1	8.1	32.3	8.1	32.3
Total	12.1	12.1	50.6	13.9	14.5	15.8	16.3	60.6	16.3	63.1
Cash flow (\$mm)										
Development	10.9	5.0	27.4	6.2	9.2	11.8	12.1	39.4	12.1	45.2
Net proceeds (\$mm)										
Royalty income (\$mm)	24.0	26.3	113.7	30.6	31.3	40.3	41.5	143.7	41.5	154.6
Royalty/Net proceeds	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%
Administration	(0.0)	0.3	0.5	0.5	0.2	0.2	0.2	1.1	0.2	0.8
One-time			-	4.9				4.9		-
Distributable income (\$mm)										
Severance tax/revenue	10.4%	9.5%	9.9%	9.5%	9.9%	9.5%	9.9%	9.7%	9.9%	9.8%
Operating cost (\$/mcf)	0.71	0.75	0.75	0.93	0.89	0.87	0.87	0.89	0.87	0.87
Development/Cash flow	25%	12%	15%	13%	18%	18%	18%	17%	18%	18%

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Natural Gas and Oil Income Stocks - Rank by McDep Ratio								
			Price (\$/sh)	Shares	Market Cap (\$mm)	Net Present Value (\$/un)	Debt/ Present Value	McDep Ratio
	Symbol/ Rating		20-Mar 2008	(mm)				
U.S. Royalty Trusts								
Permian Basin RT	PBT		20.41	46.6	950	18.00	-	1.13
Sabine Royalty Trust	SBR		48.32	14.6	710	48.00	-	1.01
Cross Timbers Royalty Trust	CRT		47.50	6.0	290	47.00	-	1.01
Mesa RoyaltyTrust	MTR		66.30	1.9	120	70.00	-	0.95
San Juan Basin Royalty Trust	SJT	B	35.15	46.6	1,640	40.00	-	0.88
Hugoton RoyaltyTrust	HGT	B	26.75	40.0	1,070	34.00	-	0.79
<i>Total or Median</i>					4,800			0.98
Canadian Income Trusts (US\$)								
Pengrowth Energy Trust	PGH		18.50	247.0	4,570	19.00	0.25	0.98
Canadian Oil Sands Trust	COSWF	B	38.27	479.0	18,330	45.00	0.05	0.86
Enerplus Resources Fund	ERF		40.21	129.4	5,200	52.00	0.13	0.80
Penn West Energy Trust	PWE	B	26.77	372.6	9,970	37.00	0.23	0.79
<i>Total or Median</i>					38,100		0.18	0.83
U.S. Master Limited Partnerships (MLPs)								
Kinder Morgan Energy Partners, L.P.	KMP	S	53.98	179.4	9,680	17.00	0.56	1.96
Encore Energy Partners, L.P. (32%)	ENP		18.63	10.2	190	20.00	0.24	0.95
Linn Energy, LLC	LINE		19.05	101.1	1,930	27.00	0.36	0.81
Dorchester Minerals, L.P.	DMLP		19.86	28.2	560	27.00	-	0.74
<i>Total or Median</i>					12,400		0.30	0.88
B = Buy, S = Sell								
McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses								

Natural Gas and Oil Income Stocks - Rank by EV/Ebitda								
			Price (\$/sh)	Adjstd Resrvs/ Prod	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)
	Symbol/ Rating		20-Mar 2008					
U.S. Royalty Trusts								
Cross Timbers Royalty Trust	CRT		47.50	13.7	9.4	9.5	10.0	10.0
Sabine Royalty Trust	SBR		48.32	9.4	9.2	9.3	9.3	10.8
Mesa RoyaltyTrust	MTR		66.30	21.1	9.3	8.8	10.0	10.0
Permian Basin RT	PBT		20.41	8.2	7.7	8.8	9.2	10.9
San Juan Basin Royalty Trust	SJT	B	35.15	10.2	9.9	8.7	10.7	9.4
Hugoton RoyaltyTrust	HGT	B	26.75	13.1	9.6	7.5	10.2	9.8
<i>Median</i>				11.6	9.3	8.8	10.0	10.0
Canadian Income Trusts (US\$)								
Canadian Oil Sands Trust	COSWF	B	38.27	23.1	9.6	8.2	9.8	9.1
Pengrowth Energy Trust	PGH		18.50	7.4	6.0	5.9	12.4	14.4
Enerplus Resources Fund	ERF		40.21	9.7	6.9	5.5	8.1	12.4
Penn West Energy Trust	PWE	B	26.77	7.3	6.6	5.2	13.0	15.0
<i>Median</i>				8.6	6.7	5.7	11.1	13.4
U.S. Master Limited Partnerships (MLPs)								
Kinder Morgan Energy Partners, L.P.	KMP	S	53.98	8.5	7.8	15.4	27.9	6.8
Encore Energy Partners, L.P.	ENP		18.63	12.4	8.1	7.7	(31.4)	8.3
Linn Energy, LLC	LINE		19.05	19.0	9.5	7.7	(2.6)	13.2
Dorchester Minerals, L.P.	DMLP		19.86	8.5	9.9	7.3	10.0	13.7
<i>Median</i>				10.5	8.8	7.7	3.7	10.8
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								

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Natural Gas and Oil Income Stocks - Rank by NTM Distribution Yield								
		<i>Revenue</i>	<i>Natural Gas/</i>		<i>Dist/</i>			<i>Dist.</i>
	<i>Symbol</i>	<i>Royalty</i>	<i>Ebitda</i>	<i>Dist/</i>	<i>Equity</i>	<i>NTM Distribution</i>		<i>Yield</i>
		<i>(%)</i>	<i>(%)</i>	<i>Ebitda</i>	<i>Ebitda</i>	<i>(\$mm)</i>	<i>(\$/un)</i>	<i>(%)</i>
U.S. Royalty Trusts								
San Juan Basin Royalty Trust	SJT	-	98	0.82	0.82	154	3.30	9.4
Hugoton Royalty Trust	HGT	-	87	0.73	0.73	104	2.61	9.8
Cross Timbers Royalty Trust	CRT	84	69	0.95	0.95	28	4.73	10.0
Mesa Royalty Trust	MTR	-	65	0.88	0.88	12	6.61	10.0
Permian Basin RT	PBT	32	33	0.95	0.95	103	2.22	10.9
Sabine Royalty Trust	SBR	100	54	1.00	1.00	76	5.21	10.8
<i>Total or Median</i>				<i>67</i>	<i>0.91</i>	<i>0.91</i>	<i>500</i>	<i>10.0</i>
Canadian Income Trusts (US\$)								
Canadian Oil Sands Trust	COSWF	-	(8)	0.70	0.74	1,676	3.50	9.1
Enerplus Resources Fund	ERF	-	38	0.57	0.66	643	4.97	12.4
Pengrowth Energy Trust	PGH	-	36	0.63	0.84	657	2.66	14.4
Penn West Energy Trust	PWE	-	33	0.55	0.71	1,499	4.02	15.0
<i>Total or Median</i>				<i>34</i>	<i>0.60</i>	<i>0.73</i>	<i>4,500</i>	<i>13.4</i>
U.S. Master Limited Partnerships (MLPs)								
Kinder Morgan Energy Partners, L.P.	KMP		-	0.75	1.70	660	3.68	6.8
Encore Energy Partners, L.P.	ENP		23	0.48	0.63	16	1.55	8.3
Linn Energy, LLC	LINE		64	0.57	0.89	255	2.52	13.2
Dorchester Minerals, L.P.	DMLP	64	69	1.00	1.00	77	2.72	13.7
<i>Total or Median</i>				<i>44</i>	<i>0.66</i>	<i>0.94</i>	<i>1,000</i>	<i>10.8</i>
NTM = Next Twelve Months Ended December 31, 2008								
Ebitda = Earnings before interest, tax, depreciation and amortization								

Disclaimer: This analysis was prepared by Kurt Wulff, Manager of McDep LLC as of January 1, 2008. Previously Mr. Wulff was doing business as McDep Associates. The firm used sources and data believed to be reliable, but makes no representation as to their accuracy or completeness. This analysis is intended for informational purposes and is not a solicitation to buy or sell a security. Past performance is no guarantee of future results.

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