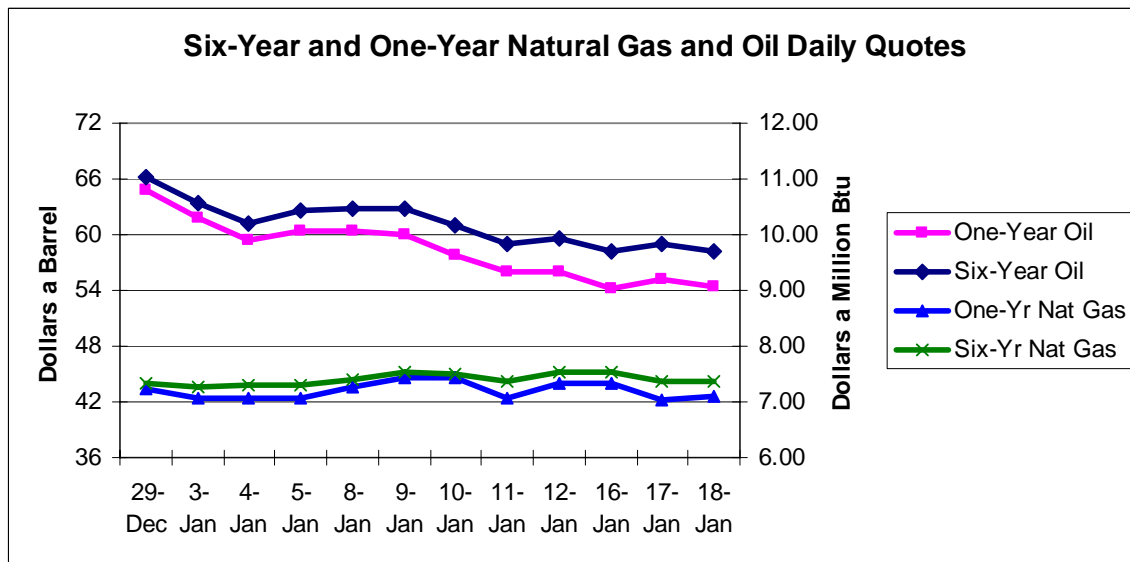


Cap and Trade

Summary and Recommendation

A cap and trade system to limit carbon dioxide emissions, apparently a favorite idea among newly empowered Democrats in Washington, should be incrementally positive for natural gas and oil at the expense of coal. As in Europe, the government would issue freely marketable permits to emit carbon dioxide. Users of clean burning natural gas would have extra permits to sell to users of high polluting coal. To avoid the cost of permits, coal users would switch to natural gas and drive up the price of natural gas to the point where it would pay to find alternative ways of reducing carbon dioxide from coal. A potentially good idea can still be botched by regulators such as when permit values collapsed last year in Europe apparently because too many permits were issued. Meanwhile, the price of oil for delivery over the next six years declined to \$58 a barrel, cracking the \$60 marker indicative of the oil price that corresponds to a McDep Ratio of 1.0 in our analysis. Yet six-year natural gas is actually up \$0.03 a million btu in 2007 to \$7.37. Latest projections of next twelve months distribution yield are a median 7.9% for U.S. trusts and a median 11.2% for Canadian trusts in our coverage.

Kurt H. Wulff, CFA



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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) 18-Jan 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								
Cross Timbers Royalty Trust	CRT	45.58	6.0	270	46.00	-	0.99	
Permian Basin RT	PBT	15.33	46.6	720	16.50	-	0.93	
Sabine Royalty Trust	SBR	39.16	14.6	570	45.00	-	0.87	
San Juan Basin Royalty Trust	SJT	B	32.04	46.6	1,490	40.00	-	0.80
Dorchester Minerals, L.P.	DMLP	21.35	28.2	600	27.00	-	0.79	
Mesa RoyaltyTrust	MTR	54.80	1.9	100	70.00	-	0.78	
Hugoton RoyaltyTrust	HGT	B	24.63	40.0	990	34.00	-	0.72
	<i>Total or Median</i>			4,700			0.80	
Canadian Income Trusts (US\$)								
Enerplus Resources Fund	ERF	41.33	123.1	5,090	47.00	0.11	0.89	
Pengrowth Energy Trust	PGH	16.95	241.0	4,080	20.00	0.26	0.89	
Penn West Energy Trust	PWE	B	28.67	239.0	6,850	39.00	0.13	0.77
Canadian Oil Sands Trust	COSWF	B	24.28	479.0	11,630	35.00	0.09	0.72
	<i>Total or Median</i>			27,700		0.12	0.83	

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.

	<i>Symbol/ Rating</i>	<i>Price (\$/sh) 18-Jan 2007</i>	<i>Adjstd Resrvs/ Prod NTM</i>	<i>PV/ Ebitda NTM</i>	<i>EV/ Ebitda NTM</i>	<i>Divd or Distrib P/E NTM</i>	<i>NTM (%)</i>
U.S. Royalty Trusts							
Cross Timbers Royalty Trust	CRT	45.58		14.1	13.9	14.3	7.0
Sabine Royalty Trust	SBR	39.16		13.5	11.8	11.8	8.5
Permian Basin RT	PBT	15.33		12.1	11.2	12.7	7.9
Dorchester Minerals, L.P.	DMLP	21.35		12.9	10.2	17.1	9.1
Mesa RoyaltyTrust	MTR	54.80		13.0	10.2	12.9	7.8
San Juan Basin Royalty Trust	SJT	B	32.04	11.4	9.1	11.3	8.8
Hugoton RoyaltyTrust	HGT	B	24.63	11.8	8.5	14.7	6.8
	<i>Median</i>			12.9	10.2	12.9	7.9
Canadian Income Trusts (US\$)							
Canadian Oil Sands Trust	COSWF	B	24.28	23.0	16.1	18.1	7.4
Enerplus Resources Fund	ERF	41.33	9.5	8.9	7.9	21.1	10.4
Penn West Energy Trust	PWE	B	28.67	8.1	9.9	7.6	15.5
Pengrowth Energy Trust	PGH	16.95	7.1	7.9	7.0	13.0	15.1
	<i>Median</i>			8.8	9.4	7.8	11.2

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	67	1.68	6.8
Cross Timbers Royalty Trust	CRT	81	70	0.98	0.98	19	3.20	7.0
Mesa RoyaltyTrust	MTR	-	77	0.79	0.79	8	4.25	7.8
Permian Basin RT	PBT	29	37	0.88	0.88	56	1.21	7.9
Sabine Royalty Trust	SBR	100	56	1.00	1.00	48	3.32	8.5
San Juan Basin Royalty Trust	SJT	-	98	0.80	0.80	132	2.83	8.8
Dorchester Minerals, L.P.	DMLP	56	75	0.93	0.93	55	1.95	9.1
	<i>Total or Median</i>		75	0.88	0.88	400		7.9
Canadian Income Trusts (US\$)								
Canadian Oil Sands Trust	COSWF	-	(11)	0.75	0.82	856	1.79	7.4
Enerplus Resources Fund	ERF	-	45	0.72	0.81	528	4.29	10.4
Penn West Energy Trust	PWE	-	41	0.77	0.88	830	3.47	12.1
Pengrowth Energy Trust	PGH	-	43	0.75	1.01	615	2.55	15.1
	<i>Total or Median</i>		42	0.75	0.85	2,800		11.2
Kinder Morgan Energy Partners	KMP			0.79	1.71			6.9

NTM = Next Twelve Months Ended December 31, 2007

Ebitda = Earnings before interest, tax, depreciation and amortization

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