

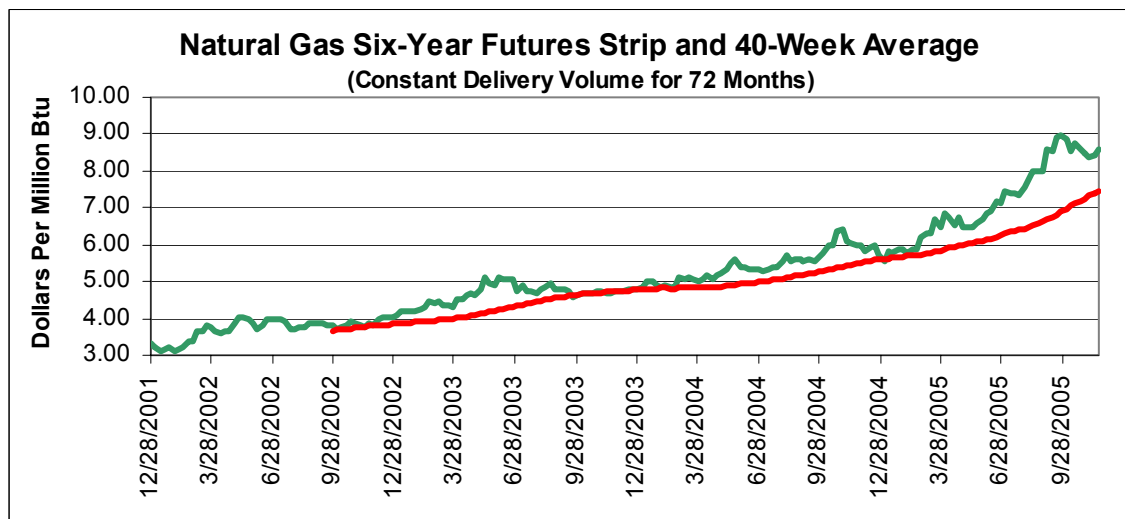
D-Day

Summary and Recommendation

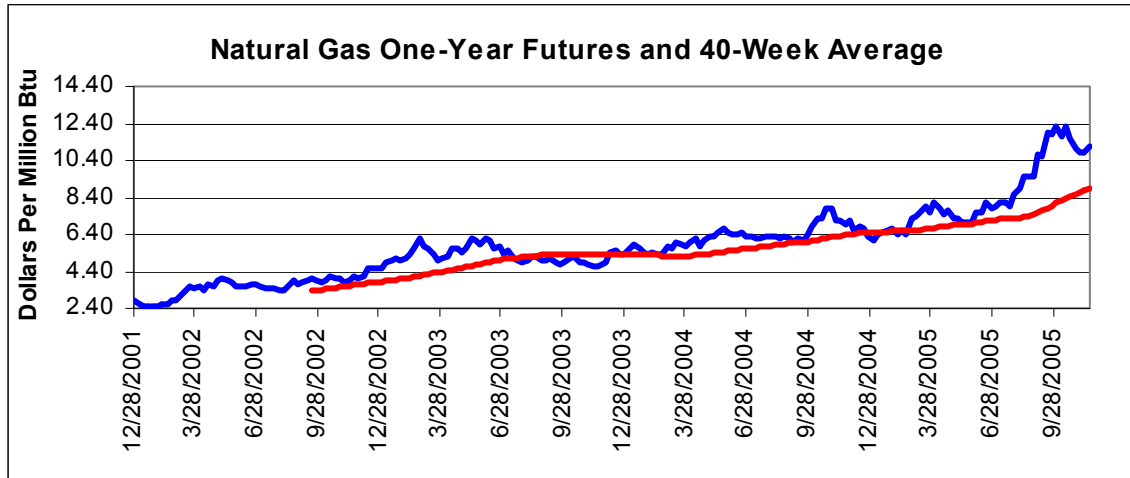
Monthly distributions to be declared today or soon may be up by 30% or more for natural gas oriented trusts where declarations lag real time price by two months including **San Juan Basin Royalty Trust (SJT)**, **Hugoton Royalty Trust (HGT)** and **Mesa Royalty Trust (MTR)**. The Henry Hub industry marker natural gas price was up some 45% in September over August while the San Juan index in New Mexico was up some 34%. Natural gas price today is higher than in September and may be higher yet early next year when the weather is usually the coldest. Months after the hurricanes hit, about half of Gulf of Mexico natural gas production is still shut in. Natural gas commodity price is in a strong uptrend while oil commodity price has softened near-term perhaps influenced temporarily by the release of government storage and fallout from Refco. Sound energy investments are likely to do well over the next several years in our opinion. Income investors can also look to those regular payments at an estimated annual rate approaching a median 12% for U.S trusts and more than a median 10% currently being paid by Canadian trusts.

Natural Gas Price Trend Robust

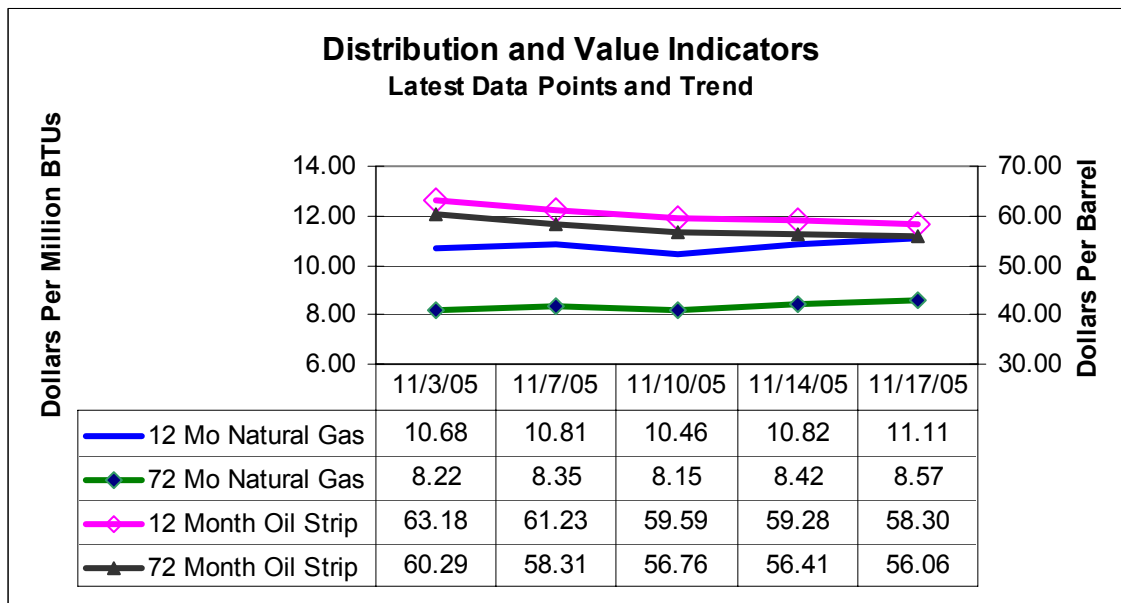
Both the one-year price and the six-year price for natural gas have upward momentum defined by current price above the 40-week average (see charts Natural Gas Six-Year and One-Year).



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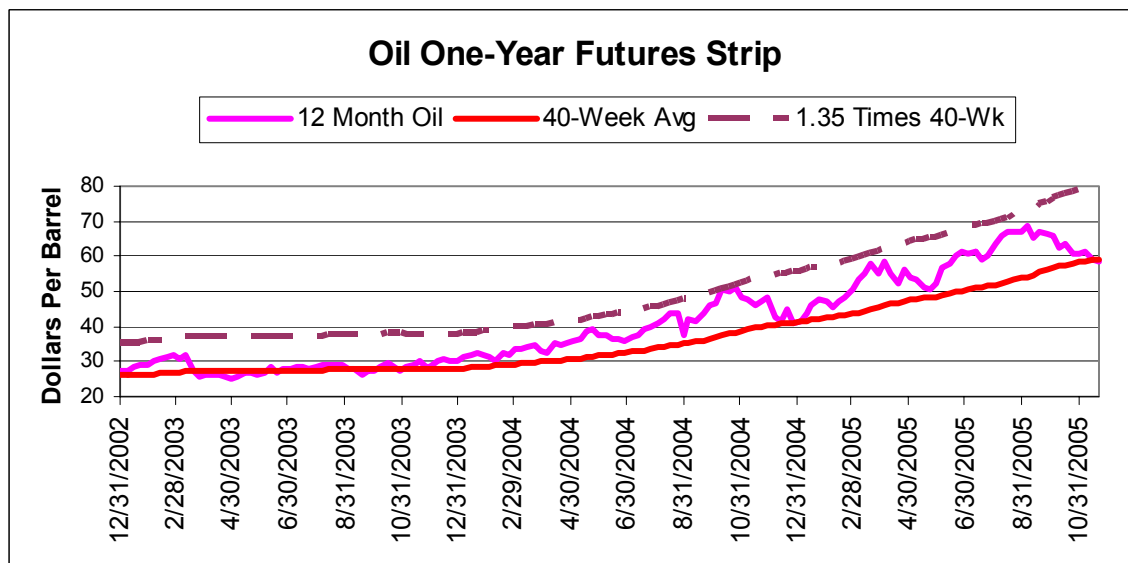
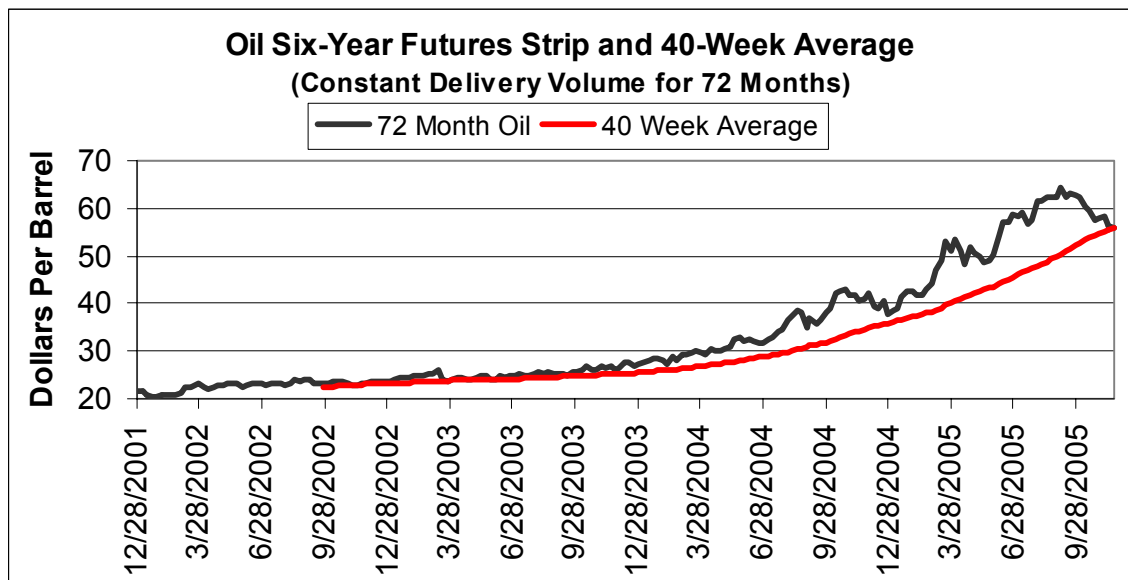
Natural gas quotes are below oil-equivalent quotes (see table [Distribution and Value Indicators](#)). Conceivably six-year natural gas currently at \$8.57, the equivalent of \$42 a barrel, could be up 35% by February to \$11.60, the equivalent of today's quote for six-year oil at \$58.



Oil Trend Less Robust Temporarily

Six-year oil holds above the 40-week average while one-year oil has broken below (see charts [Oil Six-Year and One-Year](#)). We saw a similar pattern a year ago when one-year oil barely cracked the 40-week average before rebounding.

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With No PR, U.S. Trusts May React in Unit Price to Distributions Declared

There are few promoters of U.S. royalty trusts as investments. There is no “guidance” from management as to what investors might expect. As a result, the market price may not reflect expected changes in future distributions to any great degree. Instead the most emphasized basis for valuation may be the historical distribution record. If that is the case, stock prices may react to distributions as they are declared and paid. Taking that logic one step further, it seems a good bet that the high distributions beginning imminently ought to have positive impact on stock price, at least initially.

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Commodity Representation and Income Potential

Royalty Trusts appear to be priced in the stock market near Present Value that would yield a 7% real return on our current long-term assumptions of \$50 a barrel for oil and \$10 a million btu for natural gas (see table [Rank by McDep Ratio](#)). Because estimated Ebitda varies directly with expected commodity price for both U.S. and Canadian trusts, we use that measure for comparative ranking (see table [Rank by Enterprise Value to Ebitda](#)). Ten of the eleven trusts are half or more concentrated on natural gas (see column Natural Gas/Ebitda in table [Rank by PV/Ebitda](#)).

The two buy recommendations have lower McDep Ratios and more stock market liquidity. Investors might judge the remaining trusts by McDep Ratio. We usually think 0.8 is generally quite attractive; 1.0, reasonable and 1.2, a little rich. At the same time we appear to be in a rising commodity price trend that can cause the denominator of the McDep Ratio to increase, thereby lowering the whole range of McDep Ratios.

Kurt H. Wulff, CFA

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

	Symbol/ Rating	Price (\$/sh) 17-Nov 2005	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio
U.S. Royalty Trusts							
Cross Timbers Royalty Trust	CRT	51.65	6.0	310	45.00		1.15
Sabine Royalty Trust	SBR	44.30	14.6	650	42.00		1.05
San Juan Basin Royalty Trust	SJT	H 41.58	46.6	1,940	40.00		1.04
Permian Basin RT (57%)	PBT	15.50	26.6	410	15.00		1.03
Dorchester Minerals, L.P.	DMLP	25.90	28.2	730	26.00		1.00
Hugoton RoyaltyTrust (46%)	HGT	32.95	18.4	610	34.00		0.97
Mesa RoyaltyTrust	MTR	69.30	1.9	130	75.00		0.92
	<i>Total or Median</i>			<i>4,800</i>			<i>1.03</i>
Canadian Income Trusts							
Pengrowth Energy Trust	PGH	21.59	156.7	3,380	20.00	0.16	1.07
Enerplus Resources Fund	ERF	42.01	104.9	4,410	42.00	0.13	1.00
Penn West Energy Trust	PWTFF	B 27.52	175.7	4,840	28.00	0.15	0.99
Canadian Oil Sands Trust (US\$)	COSWF	B 91.42	92.8	8,480	136.00	0.11	0.71
	<i>Total or Median</i>			<i>21,100</i>		<i>0.14</i>	<i>0.99</i>

B = Buy, H = Hold

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) 17-Nov 2005	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	51.65	18.8	10.1	11.5	11.7	8.5
Mesa RoyaltyTrust	MTR	69.30	20.0	9.1	8.4	9.0	11.1
Sabine Royalty Trust	SBR	44.30	11.6	8.6	9.0	9.0	11.1
San Juan Basin Royalty Trust	SJT	H 41.58	12.1	7.5	7.8	8.4	11.9
Permian Basin RT (57%)	PBT	15.50	14.9	7.7	7.9	8.5	11.7
Dorchester Minerals, L.P.	DMLP	25.90	11.8	7.2	7.2	9.9	13.1
Hugoton RoyaltyTrust (46%)	HGT	32.95	13.6	6.2	6.0	7.7	12.9
	<i>Median</i>		<i>13.6</i>	<i>7.7</i>	<i>7.9</i>	<i>9.0</i>	<i>11.7</i>
Canadian Income Trusts							
Canadian Oil Sands Trust (US\$)	COSWF	B 91.42	20.0	12.1	8.6	9.8	3.7
Pengrowth Energy Trust	PGH	21.59	7.6	5.7	6.1	8.9	10.8
Enerplus Resources Fund	ERF	42.01	9.8	5.7	5.7	8.5	10.1
Penn West Energy Trust	PWTFF	B 27.52	8.0	4.6	4.6	6.5	11.4
	<i>Median</i>		<i>8.9</i>	<i>5.7</i>	<i>5.9</i>	<i>8.7</i>	<i>10.5</i>

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended September 30, 2006; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

Natural Gas and Oil Royalty Trusts

Rank by PV/Ebitda: Present Value to Earnings Before Interest, Tax, Deprec.

	Symbol	Total Present Value (\$mm)	Unit Present Value (\$/mcf)	Natural Gas/ Reserves (bcf)	Adjusted Ebitda (%)	Adjusted Reserves/ Production NTM	Revenue Royalty (%)	PV/ Ebitda
U.S. Royalty Trusts								
Cross Timbers Royalty Trust	CRT	270	4.20	64	77	18.8	85	10.1
Mesa RoyaltyTrust	MTR	140	3.23	43	82	20.0	-	9.1
Sabine Royalty Trust	SBR	612	4.90	125	70	11.6	100	8.6
San Juan Basin Royalty Trust	SJT	1,864	3.70	504	99	12.1	-	7.5
Permian Basin RT (57%)	PBT	399	3.20	125	51	14.9	30	7.7
Dorchester Minerals, L.P.	DMLP	734	4.99	147	84	11.8	54	7.2
Hugoton RoyaltyTrust (46%)	HGT	626	3.70	169	94	13.6	-	6.2
	<i>Total or Median</i>	<i>4,600</i>		<i>1,200</i>	<i>82</i>	<i>13.6</i>		<i>7.7</i>
Canadian Income Trusts								
Canadian Oil Sands Trust (US\$)	COSWF	14,235	3.70	3,847	(9)	20.0	-	12.1
Pengrowth Energy Trust	PGH	3,749	4.50	833	48	7.6	-	5.7
Enerplus Resources Fund	ERF	5,076	3.70	1,372	65	9.8	-	5.7
Penn West Energy Trust	PWTFF	5,779	3.13	1,848	53	8.0	-	4.6
	<i>Total or Median</i>	<i>28,800</i>		<i>7,900</i>	<i>51</i>	<i>8.9</i>		<i>5.7</i>

PV = Present Value of oil and gas and other businesses
Ebitda = Earnings before interest, tax, depreciation and amortization

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