

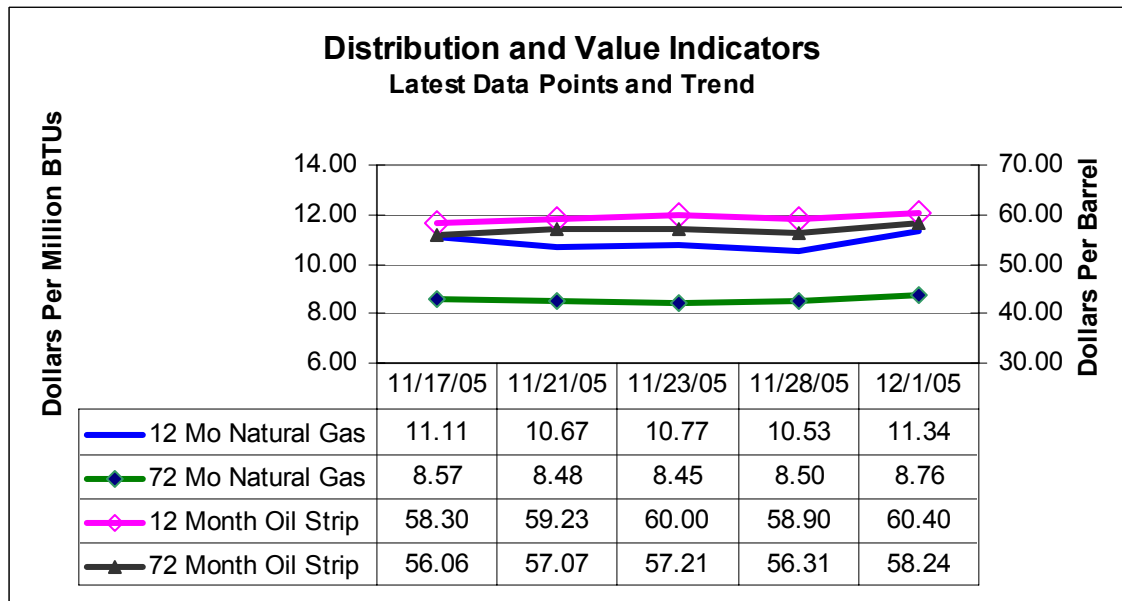
## Calpine Farewell

### Summary and Recommendation

Looming bankruptcy is a sad prospect for the most aggressive builder of natural gas fired electrical generation facilities. Calpine’s legacy of efficient plants, likely under new ownership, will yet transform increasing quantities of valuable natural gas into valuable electric power. Unfortunately Calpine borrowed too much money that compromised its ability to withstand the challenges in pursuing its clean energy vision. Royalty Trusts in our coverage are all soundly financed and well-positioned to profit from providing the clean fuel that Calpine’s successors seek. We chart some of the detail in our projections of volume and distributions and have a new table with financial characteristics of distributions. Latest declarations of Canadian trusts are near a median rate of 10% a year while our estimated annual rate for U.S trusts exceeds a median 11% for the next year.

### Oil Firm, Natural Gas Ticks Up

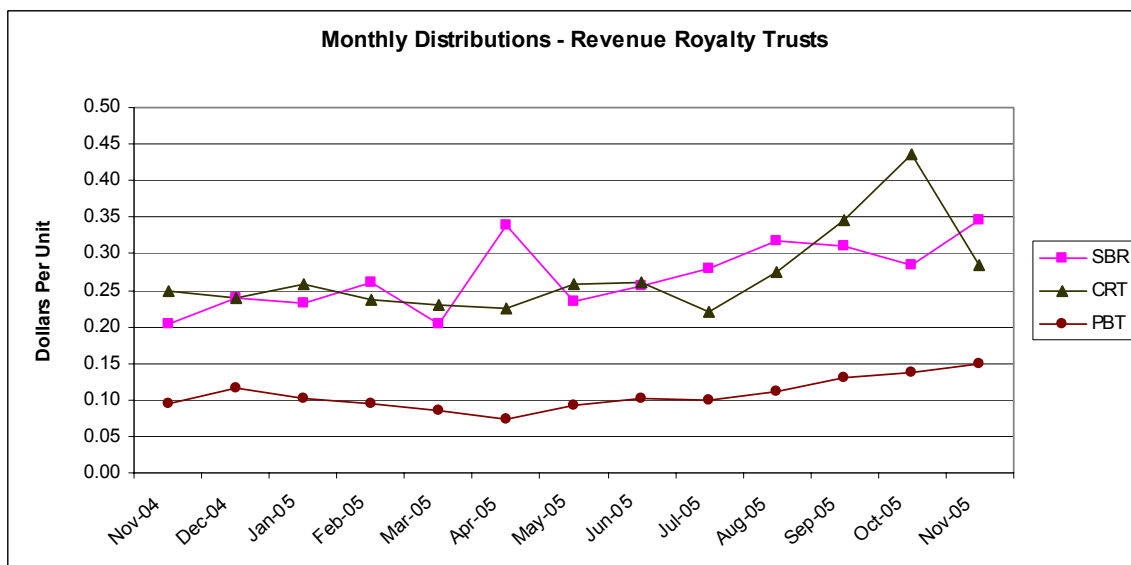
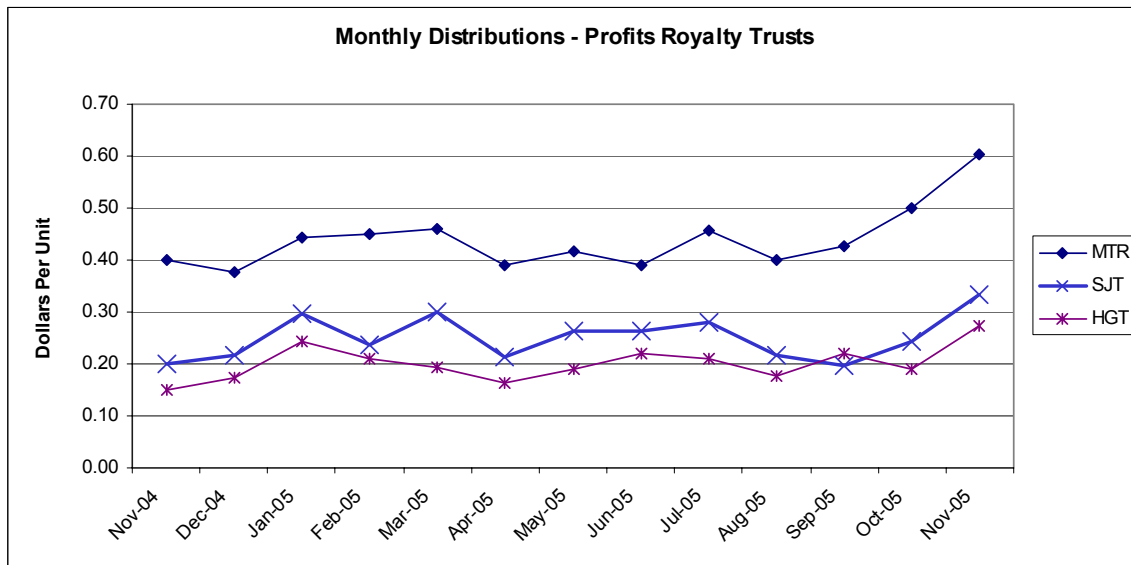
One-year oil momentum upward has been restored with the current quote above the 40-week average of \$59.60. Six-year oil momentum held positive under recent pressure. Natural gas quotes have strengthened further in a sturdy trend (see table Distribution and Value Indicators).



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.

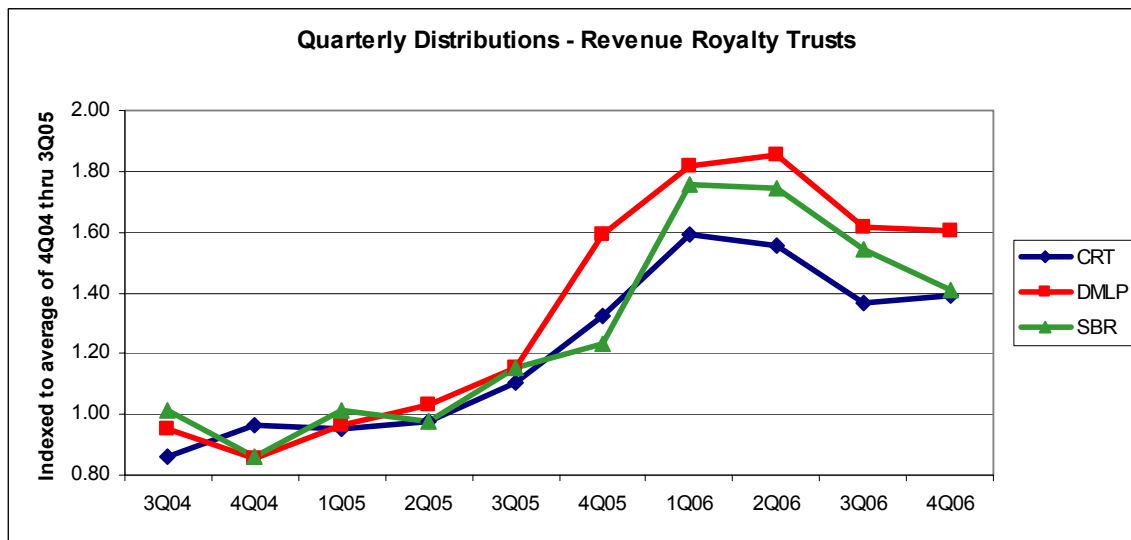
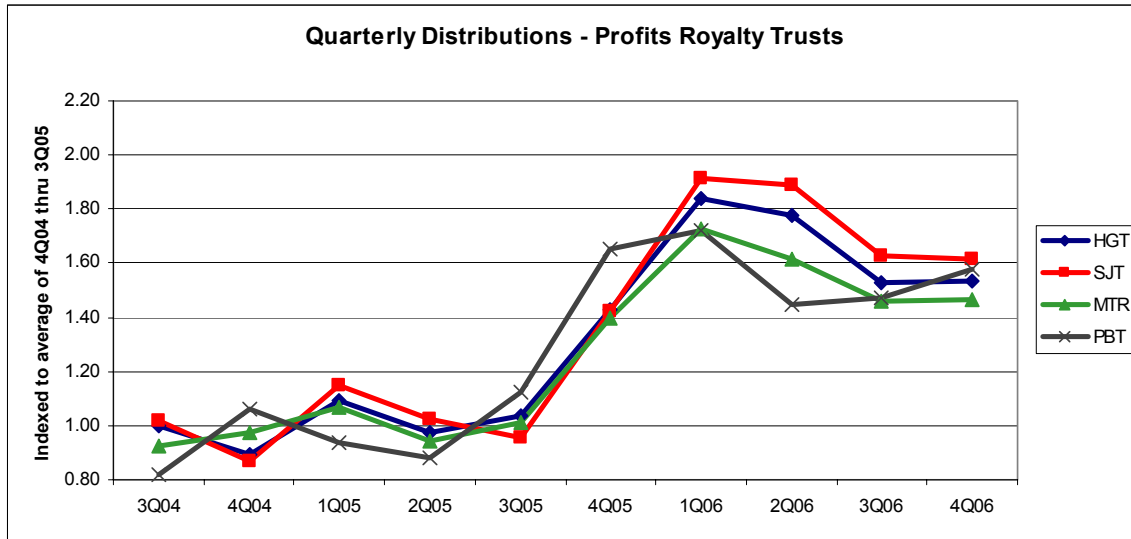
## U.S. Royalty Trusts in Accelerating Distribution Trend

The higher natural gas quotes after the Gulf Coast hurricanes are making their way into distributions. The net profits interest trusts declare distributions two months after the fact and showed nice gains in November (see chart Monthly Distributions – Profits Royalty Trusts). The net revenue interest trusts declare distributions three months after the fact and have more of their response ahead (see chart Monthly Distributions – Revenue Royalty Trusts).



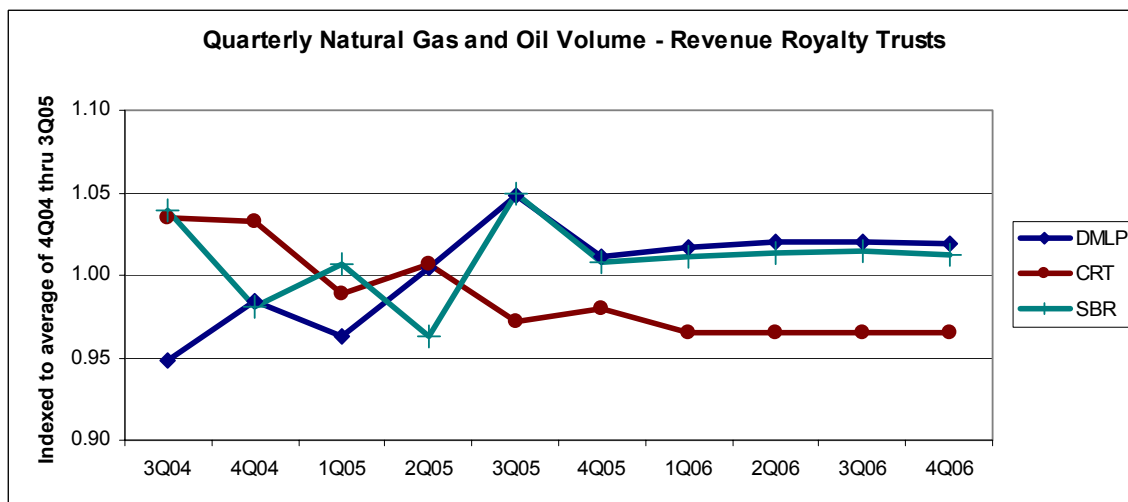
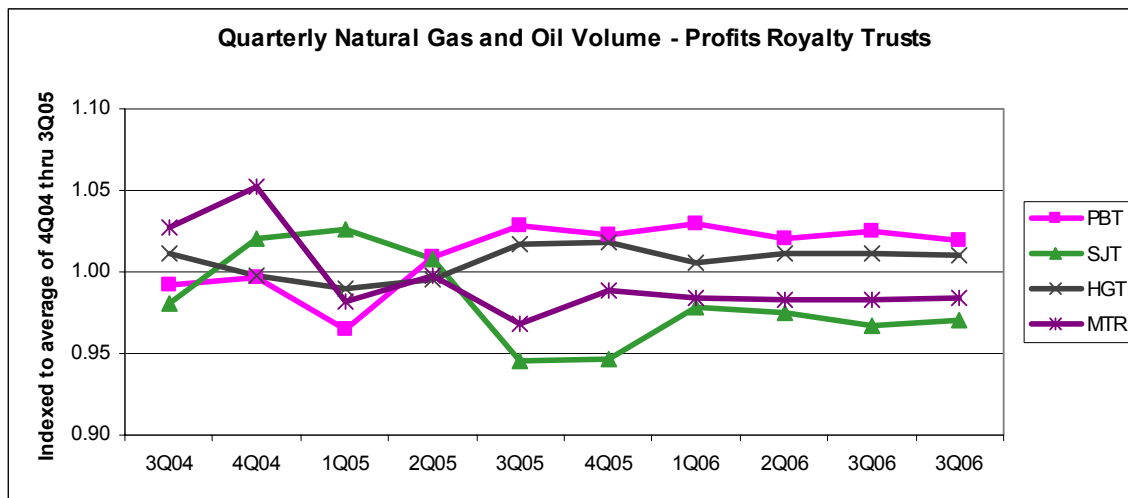
From the history of monthly distributions we draw some guidance for future distributions by quarter (see charts Quarterly Distributions).

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.



After price, the most important variable is volume. Again the best guidance for future volume is recent history (see charts Quarterly Natural Gas and Oil Volume). Only **Dorchester Minerals (DMLP)** has a management who can offer clues. Mr. Casey McManemin cautions that some sources of recent gain could be temporary. Mr. McManemin once told us that he intended to disclose information that would help investors draw their own conclusions. Indeed the DMLP trend is “looking good”.

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.



## 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](#)).

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. Alternatively, rising McDep Ratios could signal that our estimates are lagging a rising commodity price trend.

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.

## Sound Finances

Having no debt, U.S. royalty trusts are soundly financed by design. U.S. trusts pay out nearly all of cash flow as required by their charter (see table Rank by NTM Distribution Yield).

Canadian royalty trusts withhold some cash flow for reinvestment. Canadian trusts also carry some debt. Yet when we allocate cash flow to debt and equity, we see that Canadian trusts pay out a median of just 0.55 times equity cash flow. The Canadian trusts in our coverage are each soundly financed.

In contrast a distribution of 1.67 times equity cash flow indicates that a popular pipeline partnership in our coverage is paying out what it doesn't have. That does not meet our definition of sound finance. Figuratively charging, "That's our money!" the creditors at Calpine finally stepped in at their high debt company and reclaimed their cash that recently deposed management was diverting to others.

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) 1-Dec 2005	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/un)	Debt/ Present Value	McDep Ratio
<b>U.S. Royalty Trusts</b>								
San Juan Basin Royalty Trust	SJT	H	44.95	46.6	2,100	40.00	-	1.12
Sabine Royalty Trust	SBR		47.20	14.6	690	42.00	-	1.12
Cross Timbers Royalty Trust	CRT		50.55	6.0	300	45.00	-	1.12
Hugoton RoyaltyTrust (46%)	HGT		37.38	18.4	690	34.00	-	1.10
Permian Basin RT (57%)	PBT		16.46	26.6	440	15.00	-	1.10
Dorchester Minerals, L.P.	DMLP		26.07	28.2	740	26.00	-	1.00
Mesa RoyaltyTrust	MTR		69.82	1.9	130	75.00	-	0.93
	<i>Total or Median</i>				5,100			1.10
<b>Canadian Income Trusts</b>								
Pengrowth Energy Trust	PGH		23.15	159.0	3,680	20.00	0.16	1.13
Enerplus Resources Fund	ERF		46.80	110.0	5,150	42.00	0.14	1.10
Penn West Energy Trust	PWTFF	B	30.30	179.0	5,430	28.00	0.15	1.07
Canadian Oil Sands Trust (US\$)	COSWF	B	113.08	93.1	10,530	136.00	0.11	0.85
	<i>Total or Median</i>				24,800		0.14	1.08

B = Buy, H = Hold

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) 1-Dec 2005	Adjstd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)
<b>U.S. Royalty Trusts</b>							
Cross Timbers Royalty Trust	CRT	50.55	18.8	9.9	11.1	11.3	8.9
Mesa RoyaltyTrust	MTR	69.82	20.0	8.8	8.2	8.8	11.4
Sabine Royalty Trust	SBR	47.20	11.6	8.2	9.3	9.3	10.8
Permian Basin RT (57%)	PBT	16.46	14.8	7.4	8.1	8.7	11.5
Dorchester Minerals, L.P.	DMLP	26.07	11.6	7.4	7.4	10.2	13.2
San Juan Basin Royalty Trust	SJT	H	44.95	12.1	7.3	8.2	8.8
Hugoton RoyaltyTrust (46%)	HGT		37.38	13.5	6.6	7.3	9.5
	<i>Median</i>			<i>13.5</i>	<i>7.4</i>	<i>8.2</i>	<i>9.3</i>
<b>Canadian Income Trusts</b>							
Canadian Oil Sands Trust (US\$)	COSWF	B	113.08	20.0	12.1	10.3	12.4
Pengrowth Energy Trust	PGH		23.15	7.6	5.3	6.0	8.4
Enerplus Resources Fund	ERF		46.80	8.6	5.3	5.8	8.6
Penn West Energy Trust	PWTFF	B	30.30	8.0	4.6	5.0	7.1
	<i>Median</i>			<i>8.3</i>	<i>5.3</i>	<i>5.9</i>	<i>8.5</i>

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended December 31, 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 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>							
Cross Timbers Royalty Trust	CRT	85	78	0.99	0.99	27	4.49
Hugoton RoyaltyTrust (46%)	HGT	-	94	0.76	0.76	72	3.92
Sabine Royalty Trust	SBR	100	70	1.00	1.00	74	5.10
San Juan Basin Royalty Trust	SJT	-	99	0.93	0.93	237	5.09
Mesa RoyaltyTrust	MTR	-	83	0.93	0.93	15	7.95
Permian Basin RT (57%)	PBT	30	50	0.93	0.93	50	1.89
Dorchester Minerals, L.P.	DMLP	54	83	0.98	0.98	97	3.45
	<i>Total or Median</i>		<i>83</i>	<i>0.93</i>	<i>0.93</i>	<i>600</i>	<i>11.3</i>
<b>Canadian Income Trusts</b>							
Canadian Oil Sands Trust (US\$)	COSWF	-	(8)	0.27	0.31	319	3.43
Enerplus Resources Fund	ERF	-	55	0.47	0.54	475	4.32
Penn West Energy Trust	PWTFF	-	54	0.45	0.53	571	3.19
Pengrowth Energy Trust	PGH	-	48	0.57	0.68	409	2.57
	<i>Total or Median</i>		<i>51</i>	<i>0.46</i>	<i>0.53</i>	<i>1,800</i>	<i>9.9</i>
Kinder Morgan Energy Partners	KMP			0.75	1.67		6.3

NTM = Next Twelve Months Ended December 31, 2006

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.