Stop Thief!

Summary and Recommendation

We urge investors in **Sabine Royalty Trust (SBR)** to reject the proxy solicitation by self-styled Sabine Production et al. As owners of SBR we received on January 4 an audacious proposal to turn the respected trust founded a quarter century ago by the late Ashley Priddy into a high-greed partnership. The arrogant scheme would allow the general partner to abscond with up to 45% of incremental distributions merely as a result of commodity price upside. Adding to the insult, the general partner would have the option to reset the trigger for asset stripping at a lower level when distributions fluctuate downward. Meanwhile investors in the legitimate entities in our coverage may receive a median distribution yield in 2006 of 10.0% for U.S. royalty trusts. The distribution would likely be more than a median 9.3% for Canadian trusts, a group including buy-recommended **Canadian Oil Sands Trust (COSWF)** and buy-recommended **Penn West Energy Trust (PWTFF)**. Commodity price indicators continue to have upward momentum.

Mr. Priddy May Be Rolling in his Grave

On January 5, the day the soliciting party issued a press release, SBR stock declined more than 9%. That could be a down payment on the dilution unitholders of SBR may face. Fortunately the deal is far from done. Any proxy given can be revoked. SBR stock is widely held.

We currently project that SBR would distribute almost $5 a unit in 2006, or about $0.40 a month. It appears that the general partner immediately would strip about 7% for its benefit. Apparently the GP then would get 55% of the distribution above $0.40 in any month. A distribution of $0.50 in a month, for example, would be allocated 15% or $0.075 to the GP and $0.425 to the rest of us.

If the GP did something to earn the higher compensation, it might be justified. But if the gains are more likely to be the result of normal commodity price, why give them away?

Not to worry about reduced distributions, the GP would borrow on our assets to pay us a one-time "bonus, bribe, ponzi payment" of $0.50 a unit. Also note the word "borrow". The GP would have the ability to leverage our assets excessively and essentially pay distributions out of principal. Moreover the compensation formula provides practically irresistible incentive to acquire lower quality assets that pay more income for a short time and thereby put more money in the GP's pocket. The accounting would likely be deceptive in its understatement of debt and overstatement of earnings. The asset

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stripping could continue for years until the entity sinks with too much debt leaving the unitholders with little remaining equity.

History supports our concerns. In its quarter century, SBR has out earned practically all the master limited partnerships in energy with the exception of **Dorchester Minerals (DMLP)** and a few others, perhaps.

Twisting Strengths to Weaknesses

The asset strippers would have investors believe that production decline and lack of "management" is a weakness. Results contradict that assertion. Production has been several times the reserves initially reported when the trust was formed. Reserve replacement has been surprisingly high and "finding cost" has been zero. The trust properties are managed by some of the best operators in the business for free.

Unlike any of the other trusts in our coverage, all of SBR's properties are true royalties in the traditional sense. SBR gets a fixed percentage of revenue with no obligation to pay for new investment that is continually being made in the properties. Most trusts are net profits interests that have about the same economic representation of operating companies.

For two reasons there is not much management that can be added to SBR's properties. First, the scattered interests mean that none are large enough to justify much attention. Second, royalty owners normally have little influence over operators.

One of the great advantages of the unmanaged U.S. royalty trusts in recent years has been the lack of commodity price hedging. For the "privilege" of having a general partner, SBR owners would take hedging "losses" without the downside protection should commodity price decline instead.

A Sensible Alternative

The exploding general partner compensation mechanism is the deal breaker in our mind. Take that away and there could be a transaction that makes sense. For example, a consolidation of Dorchester Minerals and SBR might benefit owners of both. DMLP has the advantages of the partnership format without the drawbacks. The GP knows the properties of SBR better than anyone we know and there could be more helpful communication with unitholders. GP compensation at DMLP is fixed at a reasonable percentage. Because the partnership has no debt it can be owned by institutional investors with fewer restrictions. About half of DMLP looks like SBR with a critical exception. Where SBR may have only the royalty interest and little influence, DMLP often has a companion working interest thereby participating in decision making and sharing information.

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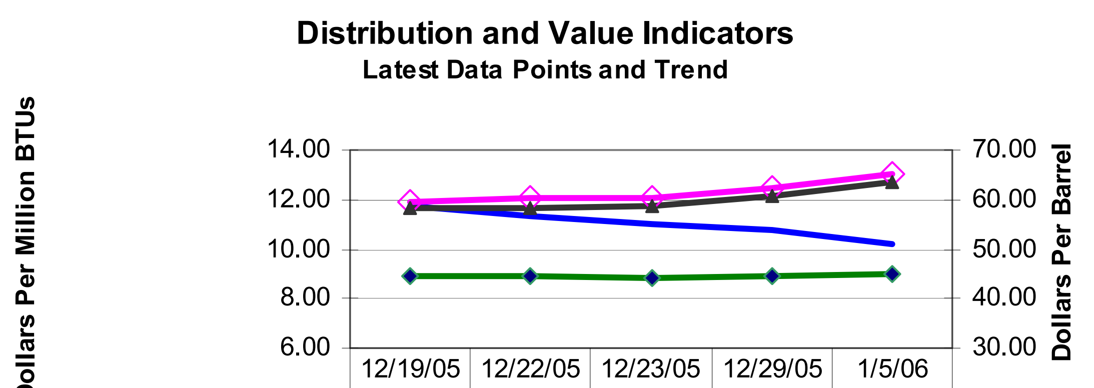
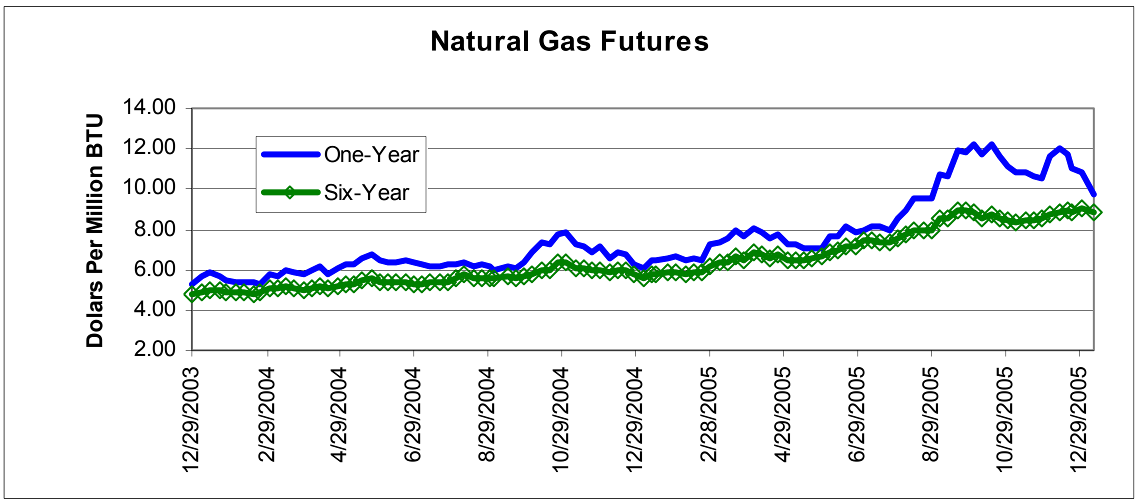
Commodity Price Leadership Shifts to Oil

Offsetting fading one-year natural gas in recent weeks, one-year oil and six-year oil have turned more robust (see chart Distribution and Value Indicators). The short-term decline in one-year natural gas may soon be spent as it approaches six-year natural gas (see chart Natural Gas Futures). Both one-year and six-year natural gas are well below the equivalence with oil that we define as oil price divided by 5. That gap should close in time.

Kurt H. Wulff, CFA



	12/19/05	12/22/05	12/23/05	12/29/05	1/5/06
12 Mo Natural Gas	11.76	11.34	11.04	10.73	10.23
72 Mo Natural Gas	8.92	8.93	8.84	8.90	8.96
12 Month Oil Strip	59.69	60.12	60.24	62.15	65.32
72 Month Oil Strip	58.34	58.48	58.60	60.57	63.35



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

	Symbol/	Rating	Price ($/sh) 5-Jan 2006	Shares (mm)	Market Cap ($mm)	Net Present Value ($/un)	Debt/ Present Value	McDep Ratio
U.S. Royalty Trusts								
Hugoton RoyaltyTrust (46%)	HGT		37.40	18.4	690	34.00	-	1.10
San Juan Basin Royalty Trust	SJT	H	42.75	46.6	1,990	40.00	-	1.07
Cross Timbers Royalty Trust	CRT		47.76	6.0	290	45.00	-	1.06
Permian Basin RT	PBT		15.65	46.6	730	15.00	-	1.04
Sabine Royalty Trust	SBR		42.52	14.6	620	42.00	-	1.01
Dorchester Minerals, L.P.	DMLP		25.73	28.2	730	26.00	-	0.99
Mesa RoyaltyTrust	MTR		68.80	1.9	130	75.00	-	0.92
Total or Median					*5,200*			*1.04*
Canadian Income Trusts								
Penn West Energy Trust	PWTFF	B	33.33	179.4	5,980	28.00	0.15	1.16
Pengrowth Energy Trust	PGH		23.60	159.0	3,750	20.00	0.16	1.15
Enerplus Resources Fund	ERF		48.23	110.0	5,310	42.00	0.14	1.13
Canadian Oil Sands Trust (US$)	COSWF	B	115.93	93.1	10,790	136.00	0.12	0.87
Total or Median					*25,800*		*0.14*	*1.14*

B = Buy, H = Hold
McDep Ratio = **M**arket **c**ap and **De**bt to **p**resent 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.

	Symbol/	Rating	Price ($/sh) 5-Jan 2006	Adjstd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)
U.S. Royalty Trusts								
Cross Timbers Royalty Trust	CRT		47.76	18.8	10.3	11.0	11.1	9.0
San Juan Basin Royalty Trust	SJT	H	42.75	12.2	8.7	9.3	10.1	9.9
Mesa RoyaltyTrust	MTR		68.80	20.0	10.1	9.3	10.0	10.0
Dorchester Minerals, L.P.	DMLP		25.73	11.5	9.2	9.1	13.8	10.9
Sabine Royalty Trust	SBR		42.52	11.6	8.9	9.0	9.0	11.1
Permian Basin RT	PBT		15.65	14.9	8.2	8.5	9.2	10.9
Hugoton RoyaltyTrust (46%)	HGT		37.40	13.5	7.7	8.5	11.8	8.4
Median				*13.5*	*8.9*	*9.1*	*10.1*	*10.0*
Canadian Income Trusts								
Canadian Oil Sands Trust (US$)	COSWF	B	115.93	20.0	11.0	9.6	11.2	3.0
Pengrowth Energy Trust	PGH		23.60	7.6	5.6	6.4	9.5	11.0
Enerplus Resources Fund	ERF		48.23	8.6	5.6	6.3	9.7	9.0
Penn West Energy Trust	PWTFF	B	33.33	8.0	4.9	5.7	8.5	9.7
Median				*8.3*	*5.6*	*6.4*	*9.6*	*9.3*

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

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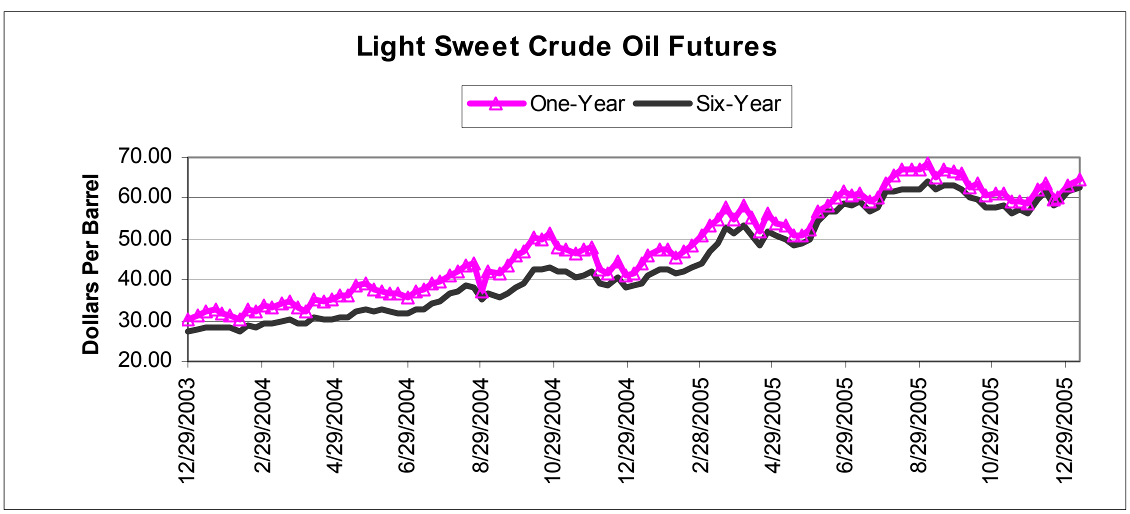
Natural Gas and Oil Royalty Trusts
Rank by NTM Distribution Yield

	Symbol	Revenue Royalty (%)	Natural Gas/ Ebitda (%)	Dist/ Ebitda	Dist/ Equity Ebitda	NTM Distribution ($mm)	NTM Distribution ($/un)	Dist. Yield (%)
U.S. Royalty Trusts								
Hugoton RoyaltyTrust (46%)	HGT	-	92	0.72	0.72	58	3.16	8.4
Cross Timbers Royalty Trust	CRT	85	74	0.99	0.99	26	4.29	9.0
San Juan Basin Royalty Trust	SJT	-	99	0.92	0.92	197	4.22	9.9
Mesa RoyaltyTrust	MTR	-	79	0.93	0.93	13	6.86	10.0
Sabine Royalty Trust	SBR	100	67	1.00	1.00	69	4.73	11.1
Permian Basin RT	PBT	30	43	0.93	0.93	79	1.70	10.9
Dorchester Minerals, L.P.	DMLP	54	77	0.99	0.99	79	2.80	10.9
Total or Median			*77*	*0.93*	*0.93*	*500*		*10.0*
Canadian Income Trusts								
Canadian Oil Sands Trust (US$)	COSWF	-	(7)	0.25	0.28	322	3.46	3.0
Enerplus Resources Fund	ERF	-	49	0.50	0.58	480	4.36	9.0
Penn West Energy Trust	PWTFF	-	49	0.48	0.56	577	3.22	9.7
Pengrowth Energy Trust	PGH	-	43	0.61	0.73	413	2.60	11.0
Total or Median			*46*	*0.49*	*0.57*	*1,800*		*9.3*
Kinder Morgan Energy Partners	KMP			0.75	1.67			6.4

NTM = Next Twelve Months Ended December 31, 2006
Ebitda = Earnings before interest, tax, depreciation and amortization



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