

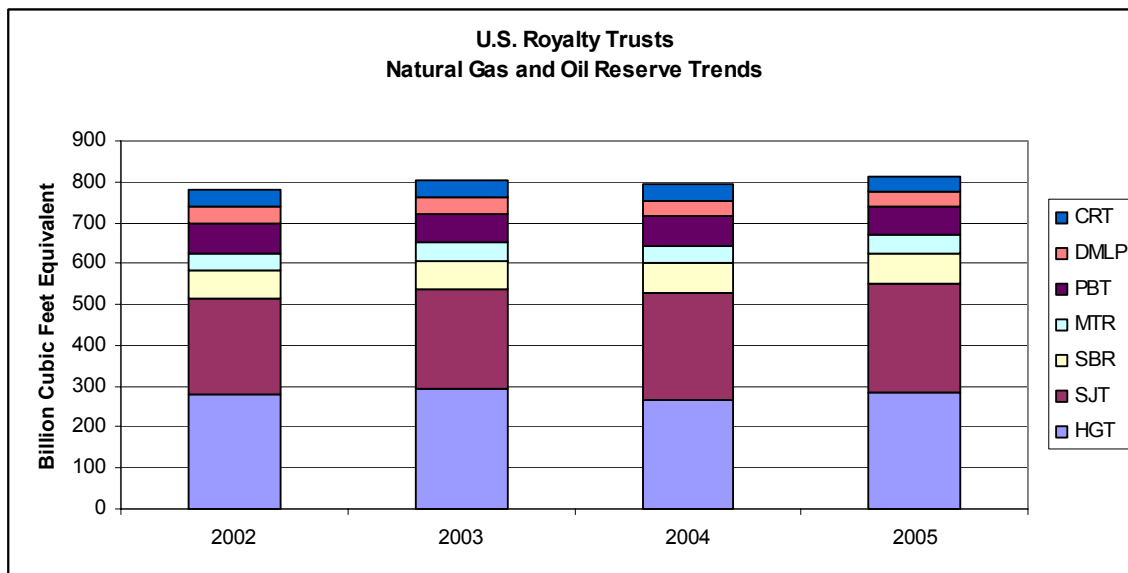
Defying Expectations

Summary and Recommendation

Reported reserves for buy-recommended **San Juan Basin Royalty Trust (SJT)** and U.S. peers have increased by 1% a year for the past three years. That contradicts the frequently repeated warning that royalty trusts are liquidating entities. Stable reserves imply stable production as has been the case in recent years. Proven reserves that imply a life index as low as 7.9 years may be nice for calculating a high depletion allowance for tax purposes, but are less reliable as indicators of investment value for the U.S. royalty trusts in our coverage. Meanwhile renewed investor interest in SJT and its peers appears justified by lagging stock price for stocks concentrated on natural gas and domiciled in the U.S. Notwithstanding their better recent performance, we remain confident about the prospects for stocks concentrated on oil and domiciled outside the U.S. including buy-recommended **Canadian Oil Sands Trust (COSWF)** and **Penn West Energy Trust (PWTF)**.

Reserves Stable, Not Shrinking

The strict interpretation of an 8 year life index for natural gas reserves is that volume would decline at the rate of 1/8 a year just like the release of the fizz from a bottle of champagne until the low rate no longer justifies operations and the champagne goes flat. Operating companies can generate new reserves by acquiring more locations and drilling more wells, but U.S. royalty trusts are formed with mature properties with no ability to add new properties. Illustrating the old saw that the best place to find more oil and gas is where it has already been found, operators seem to be perpetually finding more in the fine old fields in which U.S. royalty trusts have ownership. In the aggregate the seven U.S. entities in our coverage replaced production with new reserves to keep remaining reserves stable (see chart Reserve Trends).



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Life Index from 8 to 18 Years

Latest disclosures illustrate differences among estimators of reserves (see table Production and Reserves, 2005). The double digit life indexes are more realistic. The single digit estimates are too conservative for using in equity valuation without considerable adjustment that we try to do. Buyers in property transactions might want to use the engineering firms behind the single digit estimates when negotiating with sellers. Sellers may do better using Miller and Lents. More than a decade ago, we testified as an expert witness in court on behalf of a county tax authority in West Texas that an estimate from one of the conservative engineering firms was too low for assessing market value.

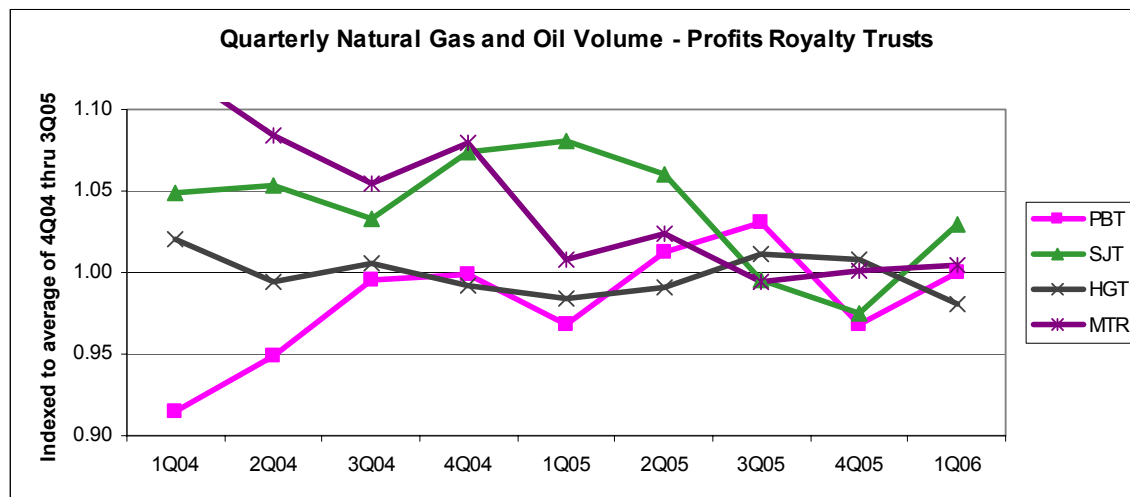
Production and Reserves, 2005

<u>Trust</u>	<u>Engineer</u>	<u>12/31/2005 Proven Reserves</u>			<u>Weighted Life Index (years)</u>
		<u>Developed (bcf or mb)</u>	<u>Undeveloped (bcf or mb)</u>	<u>Weighted (bcf or mb)</u>	
Permian Basin Royalty Trust	Cawley Gillespie	68		68	7.9
Dorchester Minerals	Huddleston; Calhoun, Blair	90		90	7.9
Sabine Royalty Trust	DeGolyer and MacNaughton	73	1	74	9.2
San Juan Basin Royalty Trust	Cawley Gillespie	233	31	249	9.3
Cross Timbers Royalty Trust	Miller and Lents	39		39	13.8
Hugoton Royalty Trust	Miller and Lents	248	38	267	15.8
Mesa Royalty Trust	ConocoPhillips, Pioneer	44	1	44	18.5

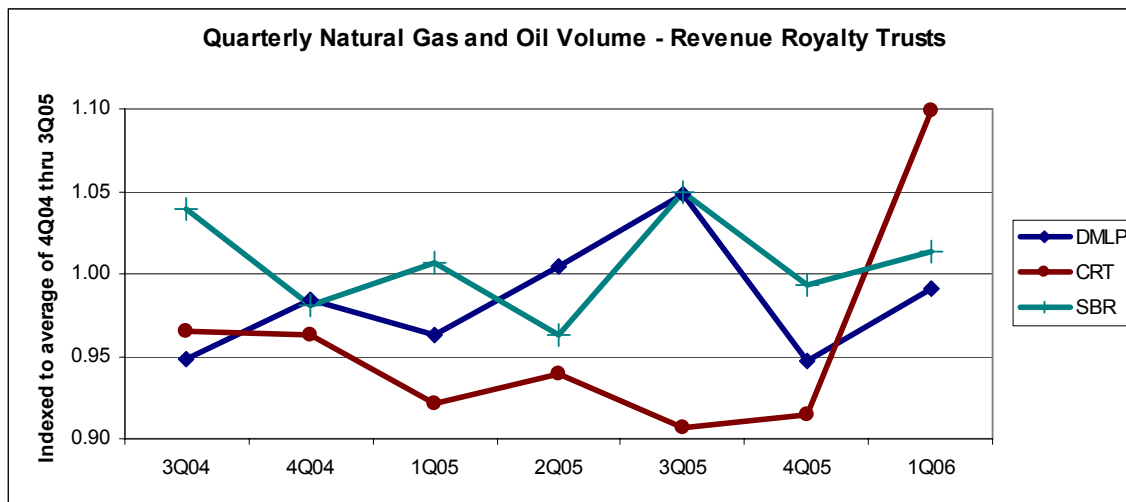
Source: Form 10-K

Volume Trend Stable Subject to Short-Term Fluctuation

Maintenance interruptions, delays in receipts and accounting adjustments contribute to occasional sharp fluctuations in what otherwise appears to be a stable trend. To keep the number of lines in each chart to a readable limit, we divide the trusts into a profits interest group and a revenue interest group (see charts Quarterly Volume). Three trusts are hybrids with the revenue interest in parenthesis – CRT (81%), DMLP (54%) and PBT (29%).



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With the contradiction in expectations for reserves and the fluctuation in volume, it should be apparent that the relative value estimates we make are subject to variability. We think that current estimates of present value for the U.S. royalty trusts are reasonably consistent though we would caution against putting too much weight on small differences.

Kurt H. Wulff, CFA

Rank by McDep Ratio: Market Cap and Debt to Present Value

	Symbol/ Rating	Price (\$/sh) 23-Mar 2006	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/un)	Debt/ Present Value	McDep Ratio
U.S. Royalty Trusts							
Permian Basin RT	PBT	16.01	46.6	750	15.00	-	1.07
San Juan Basin Royalty Trust	SJT	B 41.08	46.6	1,920	40.00	-	1.03
Sabine Royalty Trust	SBR	42.93	14.6	630	42.00	-	1.02
Cross Timbers Royalty Trust	CRT	44.70	6.0	270	45.00	-	0.99
Hugoton RoyaltyTrust (46%)	HGT	32.74	18.4	600	34.00	-	0.96
Dorchester Minerals, L.P.	DMLP	24.40	28.2	690	26.00	-	0.94
Mesa RoyaltyTrust	MTR	67.39	1.9	130	75.00	-	0.90
<i>Total or Median</i>				5,000			0.99
Canadian Income Trusts							
Pengrowth Energy Trust	PGH	23.27	160.0	3,720	18.00	0.16	1.24
Enerplus Resources Fund	ERF	49.60	114.2	5,660	42.00	0.14	1.15
Penn West Energy Trust	PWTFF	B 36.76	165.1	6,070	33.00	0.12	1.10
Canadian Oil Sands Trust (US\$)	COSWF	B 140.39	93.4	13,110	136.00	0.11	1.03
<i>Total or Median</i>				28,600		0.13	1.13

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) 23-Mar 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	44.70	12.6	12.1	12.0	12.5	8.0
San Juan Basin Royalty Trust	SJT B	41.08	13.6	11.2	11.5	13.0	7.7
Mesa RoyaltyTrust	MTR	67.39	18.6	12.4	11.2	11.3	8.8
Sabine Royalty Trust	SBR	42.93	9.0	10.2	10.5	10.5	9.5
Permian Basin RT	PBT	16.01	7.7	9.6	10.3	11.3	8.9
Hugoton RoyaltyTrust (46%)	HGT	32.74	13.6	10.0	9.7	12.7	7.9
Dorchester Minerals, L.P.	DMLP	24.40	11.8	9.8	9.2	14.2	9.8
	<i>Median</i>		<i>12.6</i>	<i>10.2</i>	<i>10.5</i>	<i>12.5</i>	<i>8.8</i>
Canadian Income Trusts							
Canadian Oil Sands Trust (US\$)	COSWF B	140.39	20.0	10.3	10.5	13.9	2.5
Pengrowth Energy Trust	PGH	23.27	7.2	5.8	7.2	11.1	11.1
Enerplus Resources Fund	ERF	49.60	9.4	6.2	7.2	13.0	8.8
Penn West Energy Trust	PWTFF B	36.76	7.7	6.5	7.1	10.9	9.6
	<i>Median</i>		<i>8.6</i>	<i>6.3</i>	<i>7.2</i>	<i>12.0</i>	<i>9.2</i>

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended March 31, 2007; 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) (%)
U.S. Royalty Trusts							
San Juan Basin Royalty Trust	SJT	-	99	0.88	0.88	147	3.16
Hugoton RoyaltyTrust (46%)	HGT	-	91	0.76	0.76	48	2.58
Cross Timbers Royalty Trust	CRT	81	70	0.96	0.96	21	3.56
Mesa RoyaltyTrust	MTR	-	76	0.98	0.98	11	5.96
Permian Basin RT	PBT	29	37	0.91	0.91	66	1.42
Sabine Royalty Trust	SBR	100	50	1.00	1.00	60	4.10
Dorchester Minerals, L.P.	DMLP	54	79	0.91	0.91	68	2.40
	<i>Total or Median</i>		<i>76</i>	<i>0.91</i>	<i>0.91</i>	<i>400</i>	<i>8.8</i>
Canadian Income Trusts							
Canadian Oil Sands Trust (US\$)	COSWF	-	(9)	0.23	0.26	322	3.45
Enerplus Resources Fund	ERF	-	46	0.55	0.64	497	4.35
Penn West Energy Trust	PWTFF	-	41	0.61	0.69	581	3.52
Pengrowth Energy Trust	PGH	-	42	0.69	0.83	414	2.59
	<i>Total or Median</i>		<i>41</i>	<i>0.58</i>	<i>0.67</i>	<i>1,800</i>	<i>9.2</i>
Kinder Morgan Energy Partners	KMP			0.77	1.69		6.8

NTM = Next Twelve Months Ended March 31, 2007

Ebitda = Earnings before interest, tax, depreciation and amortization

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